



HCM

**Guide to
Holiday Let
Mortgages**





Buying a holiday home

Whether you've always dreamed of hosting guests in your very own countryside cottage or have recently become interested in investing into property, the decision to buy a holiday home is a big one! From navigating holiday let mortgages to sorting out your finances and making a business plan, we've put together this comprehensive guide, to help you get started on your journey.

Should you buy a holiday let?



Even if owning a holiday home has been your lifelong dream, you still need to think before you buy – do you have enough funds to get your business up and running; are you prepared for the sheer amount of work it takes to be successful in the industry; have you done your market research – the list of questions goes on!

Before you take the leap into holiday letting, here are some things to think about...

- **Money:** do you have your finances in order? You'll need to have your mortgage deposit ready, plus extra funds for legal fees, furnishing your holiday home, marketing, and so on.
- **Timing:** is it the right time to buy? We've got good news for you; with the holiday letting market thriving in the UK, if you have the time and money required to run a holiday home, it's a good time! It just comes down to your current circumstances and if it's the right time for **you**.
- **Financial return:** have you made a business plan? Even if you have your deposit in place, you need to ensure that your holiday let will generate enough bookings to ensure a healthy income.



- **Workload:** are you able to manage everything? Running a holiday home isn't just about doing a quick clean between guests. It involves everything from proficient marketing to day-to-day management. You can appoint a professional holiday letting agency to do this for you, but this cost should be factored into your financial plan.
- **Personal benefits:** let's not forget your own happiness! Part of the decision to buy might be swayed by the prospect of owning your very own home from home. Although there are occupancy restrictions, it couldn't be easier, or cheaper, to plan a getaway at your own holiday cottage.

Are holiday let properties a good investment?

Buying a holiday let can be a great financial investment – if you buy the right property and things are operated correctly, there's all the potential to generate a very healthy profit. The key is to do your research beforehand and keep putting the work in afterwards.

The 8-10% rule

Free Mortgage Assessment

Mortgage Calculator



This rule is tantamount to a financially successful holiday home. You want to work out the ratio of your **estimated gross rental income to the purchase price of the property**. If you can get that number to work out at between 8% and 10%, things are looking promising!

The 8-10% rule comes into play when looking at property prices and what we call 'postcode value': some homes are expensive purely because of their location and desirability as a residential home. The problem is, the rental potential of these properties does not change proportionally with purchase price. Holiday makers, on the whole, just want a nice property in a pretty village and they don't have the specific local knowledge to know one village from another.



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Imagine this: in the Cotswolds, Broadway is an extremely coveted place to live and so properties will command a premium price compared to neighbouring villages. The rental income, however, will be roughly the same whether you buy in Broadway or in a village a couple of miles away.

In numbers: a three-bedroom property in Broadway costs £600,000 and the rental income is £35,000, a 5.8% ratio. A three-bedroom property just outside of Broadway costs £350,000 and generates £34,000 per annum, a 9.7% ratio. You can see which holiday let reaps the best financial gains!

What to buy



Finding your perfect holiday home might be trickier than you first imagine and could well be a case of heart versus head. You might have always wanted a characterful thatched cottage in a picture-perfect country village – in reality, even if you find the home of your dreams, the aesthetics aren't as important as it being functional and stable. Choosing the right holiday home is vital for your business and if you make a bad decision, your future income will be hampered.

Location

First things first, you need to find a good location for your holiday let. This will be somewhere that draws in tourists, has an abundance of attractions for all ages, is easy to travel to, and has plenty of amenities close by. As we've said above, you might have found the 'perfect' cottage but if it's hidden away in the middle of nowhere, without a shop or eatery for miles, it isn't going to prove very popular.

When you're thinking about potential revenue, it's advisable to question whether there are good transport links and local amenities, as well as whether your holiday home will be desirable whatever the season. You'll also have to check that there aren't any restrictions on holiday letting in the area you wish to buy, as is the case in St Ives, Cornwall.



The property

It's imperative that your holiday let property is both structurally sound and aesthetically pleasing, especially with so much competition out there. If you do want to buy a property that's in need of some TLC, that's fine, but make sure that you have the funds to cover the necessary work... and that the finished job will be worth the investment!

The size and flexibility of your holiday home can also affect the return on your investment. A larger property allows for higher rental prices and will appeal to a wider market as it can accommodate various groups of guests. As a result, the property is more likely to generate lettings throughout the year.

Properties to avoid!



It's likely that before you even begin your search for a property, you'll have an idea of what you want. However, you should understand that when it comes to lending for holiday lets, mortgage providers will be looking at different factors to buyers, and some of their requirements might surprise you!

For mortgage lenders, the primary concern is whether your potential holiday home is deemed as suitable security to allow for lending. In other words, they will want to satisfy themselves that if you don't keep up your mortgage payments, they have a charge over an asset that they could, if needed, sell, and repay the loan. Typical red flags include...

- **A property in bad condition.** Mortgage providers want the least possible risk and for this reason, will want proof that the property is habitable from day one of the mortgage. It must be in good condition, have connected utilities, a working kitchen, bathrooms, and so on. A mortgage provider will not lend money against a property that needs to be developed or heavily refurbished.
- **Specific types of construction.** Mortgage providers will only lend against homes that are built to a very strict standard. In other words, a property that's built from brick or stone with a stone or tiled roof – how you'd imagine a classic home. Very old properties can lack the necessary criteria due to the way they were built and will struggle to get a holiday let mortgage. Plus, while they're extremely popular, mortgage lenders won't touch 'unique' places such as wooden huts or timber lodges.
- **Proximity to busy commercial operations.** This includes everything from petrol stations and business parks to noisy pubs and retail outlets. Such places have the potential to ruin guests' enjoyment during their stay, and so will be viewed in a negative light.



Financing your holiday let



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Mortgage Calculator

Whether you're ready to buy your holiday home or are in the first stages of your journey, it's important to understand how the process works. The first thing is that you will require a holiday let mortgage – this is different to a regular residential mortgage or buy-to-let mortgage and unfortunately, they aren't as simple!

Mortgage deposit

With holiday let mortgages, you will need a large deposit, usually 25% to 35%. Lenders will want to know where your deposit money has come from and will require proof of your deposit. They will want absolute assurance that you're in the position to purchase a property and continue with your mortgage payments. For this reason, lenders will require a lot of information about your initial deposit and insist that you pay a large sum.

How much can you borrow?

When it comes to mortgages, you will need to understand the concept of loan-to-value: the maximum amount that a mortgage lender will agree to loan you, in relation to the value of the property. With holiday let mortgages, the maximum LTV will be around 75%, so you'll need a minimum deposit of 25%.

Where should your deposit come from?

When you apply for a mortgage, lenders will always ask, 'Where does your deposit money come from?' Generally speaking, the money will come from one of four places...

- **Personal savings and assets.** The most common situation is for deposit money to come from a savings account, an investment ISA, or a pension drawdown. In other words, a liquid or semi-liquid asset that can be used to put down the cash.



- **Gifted deposit.** Lots of people are given their deposit (or part of their deposit) as a gift and when a gifted deposit is being made, the money can only really come from a direct family relation. Normally, banks will not accept gifts from friends or businesses because they don't suspect it's being given for legitimate reasons. What's more, the money must be a gift and not a loan. This is because a deposit that has been lent puts risk on the property; there's a debt involved with the deposit and lenders don't like it. A loan also suggests that the buyer can't even afford the deposit for their property, because they're having to borrow it.
- **Money from existing property.** Many buyers will look at their main home and question whether they have excess equity in that property. For example, if they've been paying down their mortgage for years, or if they have owned the property for years and it has doubled in value, they might be able to pull a large sum of money out of it. These people will either get a further advance on their existing mortgage or will re-mortgage their residence completely. In other words, they take advantage of their existing equity to form their deposit.
- **Inheritance.** If someone inherits a lump sum of money, they might wish to invest in property, rather than leave it sitting in the bank, and use it as their holiday let mortgage deposit.

Do you meet the mortgage criteria?

Free Mortgage
Assessment

Mortgage Calculator



Each mortgage lender will have its own set of rules, ranging from minimum income requirement to deposits. Here are some criteria that you should be aware of...

- **Minimum income.** The minimum income will vary depending on the lender and it could be anything from £10,000 to £40,000. It will also change if you are joint



applicants – in this case, there could either be a combined minimum income, or rule that one applicant must earn a certain amount per annum.

- **Rental income.** Lenders will typically expect you to make a gross rental income from your holiday let that is 145% of the mortgage payments, when calculated at 5.5% interest rates (which is known as a stress test). Lenders will require proof of this income and will generally only accept it from a reputable holiday letting agent, who can provide a realistic rental projection.
- **Personal situation.** Mortgage applicants must already own property and be over the age of 21.
- **Deposit.** As discussed, you'll need a healthy deposit, typically around 25% to 30%, while interest rates and fees tend to be only slightly higher than residential mortgages.
- **The property.** Your holiday let must be considered as suitable security to allow for lending. Lenders will look into the title deeds of any prospective holiday home to ensure that there are no easements or covenants that might limit its use as a dwelling. They will also want to know if the deeds contain any clauses that prevent holiday letting as an activity. You'll also need to meet the criteria for the minimum property value of £50,000.

Mortgage lenders

Because holiday let mortgages are a specialist area of finance, there are far less lenders out there, and they can be tricky to find. The first step you're likely to take is to search for one online, but this generally isn't very helpful as many mortgage providers don't actively promote their services, while many won't show up immediately in an online search.

This is why specialists like HCM exist, as we track and monitor holiday let mortgage products constantly, helping customers to source the best possible solutions for their individual needs.

Applying directly to a lender

It is possible to apply directly to a mortgage lender, but it isn't necessarily the most sensible – or easy – decision. Even with regular mortgages, it's easy to face hurdles and complications along the way, and with holiday let mortgages, it's all the more likely.

As each applicant's individual circumstances are unique, it's hard to know, just from Googling a mortgage lender, whether they're the right one for you. Where people go straight to the lender, they risk hitting a problem or finding out that the lender won't accept their particular situation and have to cancel their application. So, it's back to square one!

If you go to a mortgage broker, such as HCM instead, the hard work will be done for you. We understand the complexity of the holiday letting market and we maintain close professional working relationships with key lenders, as well as keeping up to date with their changing criteria. Plus, once you have submitted your information to HCM, we will be fully equipped to place your mortgage and if needed, change lenders rapidly, with little extra work on your part.



The business model for holiday lets



Once you've bought your holiday home, the real work begins! To run a successful holiday let you need to first, maximise your rental income through bookings and second, wow your guests with excellent customer service in order to get good reviews and return custom.

Maximising income

To generate the best possible income from your holiday home, you have to market it well – there's a lot of competition out there, and you need to attract attention in a saturated market!

It is an option to do all of the marketing yourself but realistically, for optimum results you will want to appoint a professional. While it will cost you, taking the professional route to marketing is undeniably the most effective way to gain exposure. Let's not forget that the money you spend can be seen as an investment in your business, with a high chance that the product will pay for itself by generating a healthy amount of bookings... more than you'd get from going it alone!

Marketing essentials include...

- **Professional photography.** A picture really is worth a thousand words! You'll want nothing but top-quality images and ideally even a 'walk through' video, which together will create the best possible picture of your property.
- **A good website.** It's tempting to build your own cheap – or completely free – website, but the problem is that nobody will find you because you won't appear in any important national or regional keyword search results. Instead, you should invest the time and money to make a proficient site. Whether you do the research yourself or appoint a copywriter, you should dedicate time to your website's SEO.



You might be a brilliant wordsmith, but it's essential to include keywords which will help to boost your ranking on Google.

- **Active social media.** It might not be what you want to hear, but social media is the first place that many people go when researching something on the internet. For this reason, you want to be present across the various sites, promoting your holiday home with enticing photography and useful information.

A professional holiday letting agent can help you with all of the above and while it tends to be the most expensive, agents have extensive marketing experience and budgets, which will typically result in the largest reach and greatest income.

Price structure

When it comes to income, a good pricing strategy is key. If you under-price, you'll appear to be successful and get a larger number of bookings, but you won't generate a good profit. On the other hand, if you over-price, you'll make a few bookings at a much higher value, but when you tally up your profits, you'll realise that you've not made much money at all.

Pricing can be affected by things such as seasonality, local events, and national holidays. A holiday booking is also like a perishable item; as the expiration gets closer, the value decreases, to the point where if no one books the property for a date, its value is zero. For this reason, discounting or 'variable pricing' is a common strategy. The idea is, if your property hasn't sold by a certain date, it's time to apply a small discount to entice someone to make a booking. You can then increase this discount with time, subject to a minimum price, as there comes a point when it's not worth selling the booking slot.

Again, working with a professional is a good idea. Agents provide sophisticated pricing strategies, developed over many years of experience and with vast data sets, and so they're the recommended advisors to go to first.

Management

You might be organised, conscientious and pride yourself on being a good host – this doesn't mean that managing a holiday home will be easy! It's easy to underestimate how much work is involved with owning a holiday cottage: a professional clean between each and every guest, replenishment of amenities, organising bookings, sorting any problems which arise during a guest's stay, the list goes on.

For this reason, it's common for holiday home owners to outsource the work. This could involve getting a professional housekeeper or going the whole hog and signing up with a holiday letting agency, who can take care of everything on your behalf.

There are many questions to ask. Are you prepared to answer phone calls and travel at unsociable hours if the boiler breaks or the internet goes down? Do you want to deep clean an entire house, wash the linens and check supplies multiple times a week? Are you available to manage bookings and cancellations with short notice? If the answer to these questions is no, it's time to ask for help.

Customer service

With UK holidays proving more popular than ever, the competition has never been so fierce and it's not all about getting bookings – it's about making your guests happy.



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Unless you've gone with a holiday letting agency, you will be in charge of customer service. This means taking calls and solving problems at the drop of a hat. When people are on their holidays, they expect any issue to be resolved quickly and efficiently, and it is the owner's responsibility to do this.

Looking beyond the basics there is more emphasis on holiday homes having the 'wow' factor and owners going the extra mile to ensure an exceptional experience. Gone are the days of instant coffee sachets and a handful of flyers. To offer a personal touch and really please your guests, a thoughtful welcome hamper will go down a treat. Think bespoke baked goods and fresh juice, as well as a bespoke guide containing all of the useful information a guest could desire. Trust us, it'll earn you brownie points!

To conclude

Buying a holiday home might be a big job, but it's one with so much potential. If you still don't know how to get started, here are the first five steps to buying your holiday home.

1. Decide what you want to buy

Do your research and don't be swayed by a pretty picture! Think about what mortgage lenders will want to see and how reliable the property will prove in the long term.

2. Sort out your finances

Work how realistically how much you can spend. This means the initial deposit as well as any necessary funds to getting your holiday home up and running. Don't forget essential costs such as housekeeping and management, whilst you'll probably also have to set some money aside to furnish your property.

3. Put your business hat on!

Don't get overexcited with visions of a happy holiday home and forget that you're hoping to start a successful business. You'll need to put together a solid business plan which essentially focuses on two things. Firstly, how to generate revenue from bookings and secondly, once you've secured those bookings, how to ensure that you end up with satisfied guests.

4. Learn about holiday let mortgages

You can't simply phone your local bank and say, "I have a deposit and I wish to get a mortgage on a holiday home." Even if all your finances are good, you have a clear credit history and you know what you want to buy, it's not that easy! Holiday let mortgages are complex and you'll need to understand more about the process before you get started.

5. Find your lender...

Googling 'holiday home mortgage providers' won't be very helpful and is likely to lead to hours of scouring through banks' websites and trying to work out if they would give you a mortgage. Let HCM help you! We keep a close eye on the market and that select handful of potential mortgage lenders out there, saving you a lot of hard work and wasted time.



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Not only can we check whether you're eligible for a holiday let mortgage, we can find a lender which is best suited to your individual circumstances. This prevents you from spending hours on an application with a specific lender, only for it to fall through and find yourselves right back where you started.

Ready to get started?

Request your free mortgage assessment

Request Assessment