Financing Holiday Lets

Frequently asked questions

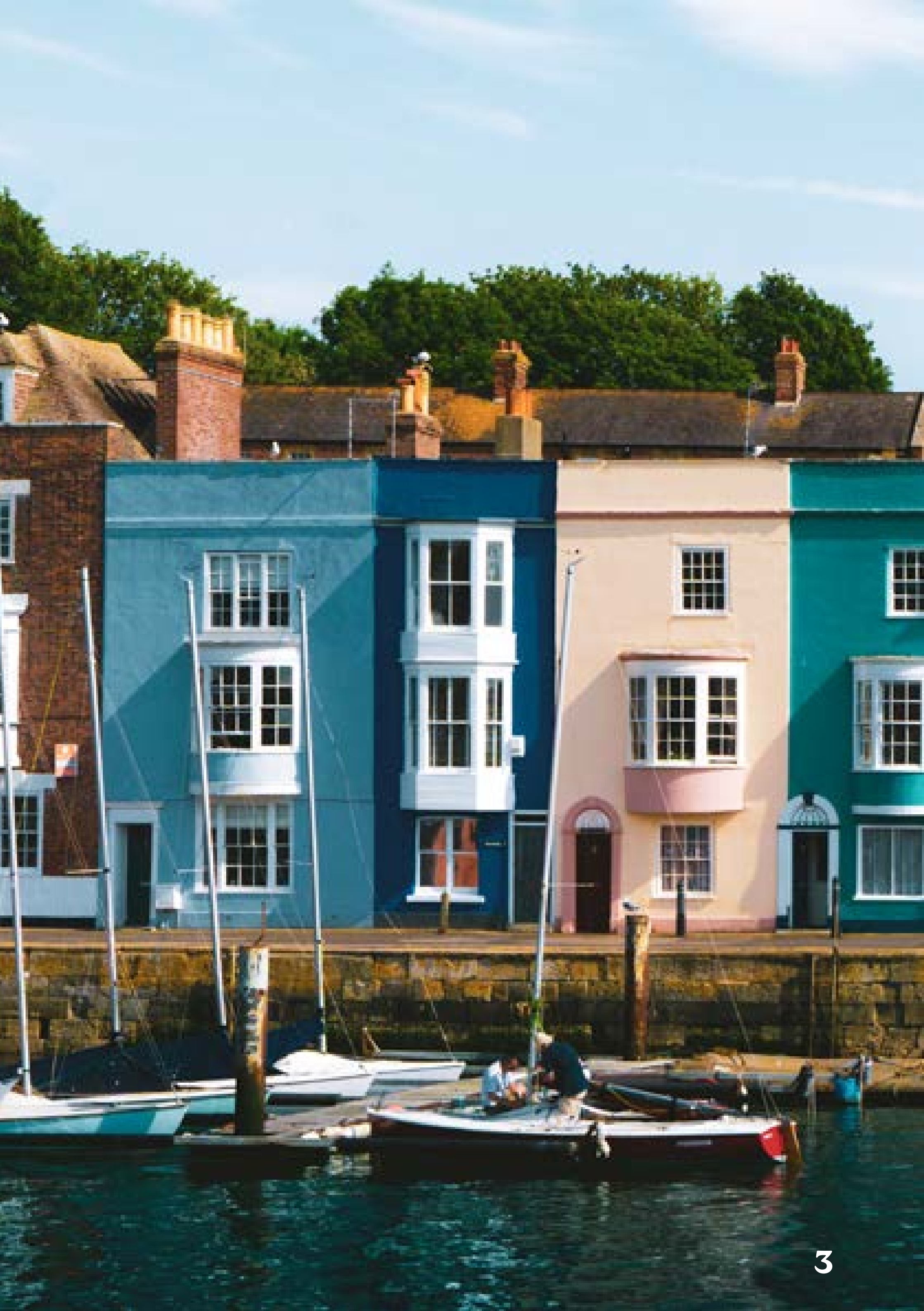
Mortgage Finance Brokers

Getting started with **holiday lets**

Holiday let properties are an increasingly popular investment option for both buy to let and commercial landlords. As the name suggests, a holiday let is a property that's purpose is for holidays, typically let out for short periods of time. These properties are generally furnished to a high standard and allow guests access to the whole home with plenty of amenities.

Over the past few years, UK staycations have only continued to grow in popularity. Following the boom in the pandemic, holiday makers now have endless options to choose from. Whether it's a traditional coastal holiday in Cornwall, a cosy cottage in the Peak District, or a city escape in the heart of Edinburgh, sites such as Airbnb offer something for everyone.

With high demand, it's no surprise that holiday lets offer landlords and property investors the opportunity to earn generous yields. Holiday let properties typically earn much higher yields than a standard buy to let, making them an attractive investment type for new and existing landlords.



Do I need planning permission to turn a property into a holiday let?

If you already own a buy to let or residential property that you're planning to use as a holiday let, you won't need any planning permission, so long as no structural changes are necessary.

However, you must ensure you're on the correct mortgage and that the property has no covenants restricting its use. It's also worth being aware that some local authorities will insist on you having a special license for the property.

What mortgage do I need for a holiday let?

Whilst some buy to let lenders will offer specific holiday let mortgage products, others will lend under a broader commercial or BTL mortgage remit.

There are a few lenders that you can access directly, but as a growing mortgage market, it's worth speaking to our experts to explore all options available to you.

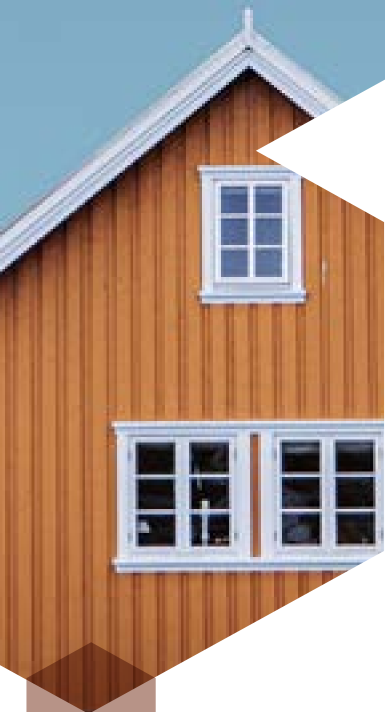
Can I stay in my holiday let?

Yes! The holiday let regulations state that the property must be available for let for a minimum of 210 days a year to be eligible for holiday let status. Outside of this, as the landlord, you can use the property for yourself, subject to your mortgage T&Cs. Please check your main residence's buildings insurance T&Cs for vacancy restrictions if you plan to spend prolonged amounts of time in your holiday let.

How easy is it to get a mortgage for a holiday let?

Securing a holiday let mortgage is very similar to the buy to let mortgage application process. The types of products available to you will depend on the property value, loan to value, your financial background, and the achievable income on the property.

While some lenders base their affordability calculations on buy to let rental income, others will look at the average achievable holiday let income, which is likely to be significantly higher. Working with our expert brokers means they can assess the best option for you and which lender allows you to borrow more for your property investment.



How many lenders offer holiday let mortgages?

As it stands, there are over 20 active lenders in the holiday let market. The rise of Airbnb and similar sites means that as more landlords invest in the market, more lenders have introduced holiday let mortgage products to their offerings.

As this space continues to grow, we hope to see more lenders enter the market, allowing for more competitive mortgage deals.

Can I use my buy to let mortgage for a holiday let?

You will probably need to remortgage onto a holiday let mortgage first. This is because most buy to let mortgage terms require properties to be let on an Assured Shorthold Tenancy (AST) agreement. As ASTs are typically set on fixed terms of six months to three years, the much shorter periods needed for holiday lets are not permitted.

Can I use a residential mortgage for a holiday let?

No. As lenders view these properties as a business, you won’t be able to run your holiday let on your home mortgage.

Some lenders may allow you to let out your home on your residential mortgage for a number of weeks per year, but you must check your mortgage T&Cs first.

Can I get a holiday let as a first time landlord?

Yes! You may find that you need to put down a higher deposit, and you'll likely need a mortgage from a more specialist lender. Speak to our experts with experience in this market to review which option is best for you.

What interest rates do holiday let mortgages have?

Typically, rates for holiday let properties are similar to buy to let mortgage rates. Rates for personal borrowers will likely be slightly cheaper than for Limited Companies. However, it's essential to consider the tax benefits that come with investing through an SPV. Please speak to a professional tax advisor before making any property investment decisions.

Lenders typically set a maximum loan to value (LTV) of 75% for both personal and Limited Company applications.

How can I access a larger loan for a holiday let?

If you're looking to borrow more on your holiday let purchase, alternative options may be available. For example, it may be that investing via an SPV Limited Company will increase your mortgage options. Our expert mortgage brokers will be able to help you find the right finance for your plans.

Will I have to pay Capital Gains Tax and Stamp Duty Tax on a holiday let?

You will need to pay Stamp Duty Tax and the additional 3% surcharge for second homes and residential investment properties. Capital Gains Tax may be charged on disposal/ sale of the property; however, if you purchase a new business, rollover relief may be available.

Please speak to a professional tax advisor for tax specific questions before making any property investment decisions.

Case study

Holiday Let Purchase with Complex Affordability Calculations

The Client

A couple looking to invest in a holiday let property together. The husband was a working professional with a strong income, and the wife an extremely experienced portfolio landlord with an existing holiday let amongst her other rental properties.

The Property

A three-bedroom, new-build penthouse apartment. With stunning far-reaching views of the North Sea and finished to a high standard, the property was sure to generate significant demand from holiday letters.property that's purpose is for holidays.

The Finance

Our clients needed a 75% LTV holiday let mortgage to purchase the property.

The Challenge

One typical challenge with seeking finance for holiday let properties is the rental affordability checks. As holiday lets are an emerging sector, most lenders assess affordability like they would for standard buy to lets. Assured Shorthold Tenancy (AST) earnings are often much lower than that of holiday let earnings, and as such, some clients face difficulties in accessing the full loan amount required to purchase higher-value properties.

Similarly, many of the lenders within the holiday let space have a restriction on the loan to value for new-build apartments. This is typically 65% LTV, whereas our clients sought finance at 74% LTV.

Both these challenges meant that it was essential we found an appropriate lender with whom to place this case.

The Solution

Our particular expertise in the holiday let sector made these challenges much easier to overcome. We retrieved a holiday letting income projection letter from a reputable agent to show to the valuer, who agreed with the figures produced. This gave us the correct income projections and allowed our client to access the full required loan amount. We were also able to quickly identify a lender that is happy to offer up to 75% LTV on new-build properties.

When presented with the full mortgage offer, our clients were happy to proceed.

The Details

Property value:	£908,000
Loan amount:	£675,000
LTV:	74%
Rate*:	4.69% 5 year fixed
Term:	25 years, Interest only
Mortgage payment:	£2,638 per month
Lender arrangement fee:	Free
Rental income:	£5,250 per month (projected income)
Gross yield:	7% per annum
Application:	Individuals

** Rate as at September 2022 and subject to change*

This guide is an overview of how you can finance your first, fifth, or 20th holiday let investment! Covering the type of mortgage you'll need, what lenders look for on your application, and a recent case study, we've put this brochure together to help you get started.

If you have any questions on holiday lets, please get in touch with our expert mortgage makers.

Let's discuss your next mortgage. Speak to an Expert.

Call us 0345 345 6788
Email us enquiry@mfbrokers.co.uk
Visit www.mfbrokers.co.uk

ANY PROPERTY USED AS SECURITY, WHICH MAY INCLUDE YOUR HOME, MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

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