

INDUSTRY INSIGHTS

Holiday Lets – A Growing Opportunity

As Sterling continues to come under pressure, and speculation rises about the ease of travel to other parts of Europe, the UK holiday market has been viewed as an area for potential growth. I read something recently which demonstrated how much we love getting away from it all: *“A holiday is an opportunity to journey within. It is also a chance to chill, to relax. It is when I switch on my rest mode.”*

The demand for holidays and time to rest can be affected by the economy but there will always be people trying to seek a break from it all. Holiday Lets are becoming an increasingly attractive investment proposition for many across the UK and it's not just down to political and economic factors. As the buy-to-let market becomes more regulated, investors are looking for alternative sources of income. Holiday lets can be a sensible investment, with potentially higher yields than traditional buy-to-lets, and they still come with a taxable allowance.

In addition, the owner will have a holiday home in a desirable location.

At Harpenden Building Society, we have been providing a product and assisting clients in this segment of the market for many years and have learned that applications can sometimes be complicated. If brokers are armed with the right information, applications and product selection can be far simpler. When trying to find a lending solution for a client, there are a number of features and characteristics you should be aware of. The big ones are the location of the property, and affordability.

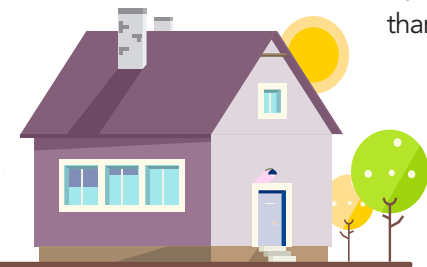
AFFORDABILITY

Affordability often looks at income and the value of an applicant's savings, which can be used as a contingency. Income yields on a holiday let are often higher than a standard tenancy agreement, yet many lenders base their calculations on the tenancy agreement. It makes sense to check how they arrive at their figures. In addition, only some lenders look at the applicant's total income rather than basing the calculation on the income of the property. This is how we assess let property lending, using the clients earned income along with a portion of the expected rental income.

We offer a holistic type of lending, for all UK income sources. This approach of assessing total income, helps in many circumstances where property income isn't sufficient on its own. To make sure the applicant is prepared, they need to have done their sums and considered the various sources to make the purchase possible.

LOCATION, LOCATION, LOCATION

Other lenders have restrictions on the location, which can include certain counties or regions. Specific geographic locations such as city centres may also be on the exclusion list. Future sale potential is an area which is often explored. For example, some parts of Cornwall try to keep properties in the hands of local people, so the next owners have to be either Cornish, or related to or married to someone who was born in the locality. If so, that can be a factor in the lending decision as the future market is smaller. Cities such as York are constantly popular with visitors as thousands of people head there throughout the year. However, coastal locations such as Newquay are obviously seasonal, and the business plan needs to take this into consideration.



PROPERTY TYPE

The type of property and construction methods can also be a crucial part of the application process.

Many, including us, will not lend above a commercial property for non Owner-Occupied, won't accept prefabricated buildings, won't let on holiday parks and are reluctant to accept applications from investors looking at high-rise buildings. This can be a problem, for example, if a city apartment is being purchased in a prime location but has a magnificent river view from the seventh floor. On paper it looks ideal, but lenders foresee problems with management fees, access, and fire regulations, which can all affect future profitability for the investor.

Another common element to be checked, unsurprisingly, is construction type. While developers increasingly favour modern construction methods, some still lenders do not.



AN OPPORTUNITY FOR BROKERS

We think the Holiday Let market is going to be one of the fastest growing areas in the industry in 2020. With the potential for higher yields, a taxable allowance and the chance for personal use of the property, there are many positives. Clearly, there are all the risks of a rental accommodation, so investors need to be well advised and clear on their business plan.

At Harpenden, we have built up years of experience and recognise the growing demand. We don't place restrictions on location, we use the enhanced income potential for holiday lets in the affordability assessment, and look at the applicant's total income from all UK sources before making a decision. Flexibility from providers is often important.

Brokers could see more and more clients enquiring about Holiday Let products.

Those that are able to find the right product, and advise their client efficiently, could be able to access a growing niche in the market.



local reputation, national recognition by Harpenden Building Society



We individually assess and approach applications.



We offer a manual underwriting process, no credit score involved.



A flexible view on merits of all cases - we're very accommodating.



We provide clear, fair and transparent charges for all cases.



Many types of income are considered when assessing affordability.



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