Welcome to MFS's Holiday Lets Property Training Certification! In this video, we'll guide you through key considerations for your clients investing in the holiday lets property market, while offering valuable insights on financing strategies to aid success.

## What is a holiday let?

A holiday let is defined as a property that is let out to holidaymakers for short durations. They should be fully furnished, meaning that there must be sufficient furniture provided for normal occupation for any visitors, and they should be entitled to use the furniture.

The letting durations should also be no longer than 31 days at a time, in order to comply with furnished holiday letting tax rules.

According to HM Revenue & Customs, or HMRC, in order to qualify as a furnished holiday let and therefore be eligible for special tax regulations, your client’s property must be available for letting for a minimum of 210 days per year, excluding the days that they personally occupy the space.

Additionally, your client’s holiday property must be commercially let to the public as a furnished holiday accommodation for at least 105 days in the year, with the exclusion of days when the property is let out to family and friends at zero cost, or at reduced rates. Any continuous stays ranging longer than 31 days at one time will also not be counted towards the 105 days.

It's important to note that the legal definitions of a holiday let may vary based on the county or region. Therefore, it is advisable to consult with the local council to determine whether your client’s home meets the specific criteria in your area.

## Why do people invest in holiday lets?

There can be a whole range of reasons why some of your clients, or potential clients, may want to invest in a holiday let property, however additional income is usually at the top of the list.

In sought-after locations, weekly earnings for these types of assets often surpass the potential monthly rental value that the property owner could receive from a single Assured Shorthold Tenancy, with tenants often willing to spend more on a short holiday stay, rather than their regular monthly rent. This reflects the strong demand in popular holiday destinations – for example: areas of outstanding beauty, like the Lake District or the Cotswolds.

This sector of the property market saw a particularly large surge during the pandemic, as international travel restrictions led to a boom in the UK staycation market. In 2021, domestic travellers accounted for 96% of the UK’s total travel and tourism expenditure. In early 2023, the market size of the holiday accommodation sector reached 2.9 billion pounds, with revenue being forecasted to reach 3.6 billion pounds in 2024.

In terms of yields, Landlord Today estimates that the average holiday let property earns 30% more yield than a traditional buy-to-let (BTL). However, it is important for your clients to note that this type of property is known to sit empty for long periods, with a large portion typically being occupied for only approximately 24 weeks of the year. Therefore, holiday-let investments typically yield an average annual return of 8%.

The appealing returns, along with the robust state of the UK's tourism industry and the anticipated increase in overseas visitors to Britain, contribute to a growing demand for holiday-let businesses.

## What do you need to consider before purchasing a holiday let?

Before purchasing a property to use as a holiday let home, there are several key aspects that clients should consider before jumping in.

### Location:

From the Jurassic coastline of Dorset to the city lights of London, a popular location is essential if clients want to successfully finance a holiday-let business. Getting the right location will depend on a range of factors, including:

* The type of tenants they are looking to target
* What marketable qualities does the property own that they can use to stand out from competitors?
* Determining how much they can charge per night

There are several high-valued locations across the UK, including:

Durham, which is a prime location for holidaymakers interested in academia, history, and coastal and countryside settings.

Nottingham which seamlessly merges history and modernity, featuring iconic landmarks like Nottingham Castle and Wollaton Hall, an Elizabethan mansion in a city-centre deer park.

Southend-on-Sea is a seaside resort town that offers a charming mix of coastal charm and entertainment. It is also home to the longest pleasure pier in the world.

The Isle of Wight, off England's south coast, is home to stunning beaches, scenic landscapes, and a rich maritime history.

Cambridgeshire is a county of academic prestige and historical significance, home to the globally renowned city of Cambridge. Its university, dating back to 1209, features iconic buildings like King's College Chapel and the Bridge of Sighs.

The size of the property, including the square footage and number of bedrooms, is a very important factor to consider. Does your client want a large country house with space for guests to host events, or a cabin for a small family with a cosy feel?

### Seasonal aspects:

Winter holidaymakers tend to favour log cabins and similar cottages, offering an appealing winter cabin experience, especially those with a hot tub.

On the flip side, certain properties thrive during the summer season. Those featuring outdoor attractions like an outdoor bar or pizza oven tend to attract more guests over the warmer months.

### Natural surroundings:

Certain properties draw holidaymakers for the natural landscapes that envelop them. For example, properties located close to rivers, lakes, and bays would be popular with a target audience that enjoys water sports. Another thing to consider would be whether the property is close to any landmarks.

### Local events:

It could be worthwhile noting whether the property your client is considering is based in a location that hosts any events that draw large amounts of people. For example, Notting Hill Carnival, based in Notting Hill, London, happens annually over the August bank holiday weekend and attracts crowds of over 2 million people. Notting Hill could also be considered a great holiday-let location due to its local attractions like Portobello Road.

There are of course other aspects to take into account, such as access to the property, whether it can be reached by rail, road and/or by foot, as well as the property’s condition, which will play a huge part when it comes to budgeting, planning, and Return on Investment (ROI).

Before we move onto those topics, it’s time for a quickfire question and test what you’ve learned so far by answering the below question:

What seasonal aspect is mentioned as attractive to winter holidaymakers?

a) Outdoor bar

b) Pizza oven

c) Hot tub

The answer is C, hot tubs are a seasonal aspect that is attractive to winter holidaymakers.

## Budgeting

Along with attractive potential yields, when purchasing a holiday-let property, clients should also take into consideration the costs that will likely come into play:

**Maintenance costs**.

There are a few things to consider when maintaining a holiday let property, such as ensuring a smooth transition between guests. This largely involves cleaning and replenishing consumables; however, maintenance also involves addressing necessary repairs to the property such as plumbing, electrics, or accidental damage, which is typically more regular with holiday lets. Property management fees could also be included in this should your clients decide to hire a management company to handle some of the maintenance.

**Security**

Considering that your clients property will occasionally empty, **home security** is paramount. These expenses can start small with simple measures such as installing external cameras or purchasing a safe. However, for clients that want to heavily prioritize safety, additional options include motion sensors, timed light switches, and smart locks. Although these options may be oftentimes expensive, they are often seen as valuable investments in terms of ensuring security for your client’s property.

**Marketing expenses**

Costs such as the cost of advertising the property, listing fees on holiday rental websites, and paid advertising should also be considered when planning.

**Commission**

Commission is another cost that warrants attention when developing a plan for holiday-let investment. Most agencies will take a standard percentage of the cost of each booking. However, they do provide benefits that could ease your clients workload. This includes handling a portion of the admin, providing their property with exposure to a wider audience, professional handling of their bookings, generating bookings, and guest management.

An example of this would be Airbnb. Most Airbnb hosts pay a flat service fee of 3% of the booking subtotal. The subtotal will be your client’s nightly price, plus any optional fees they charge to their guests – such as a cleaning fee. Say they charge £100 a night for a 3-night stay, along with a £60 cleaning fee. The subtotal would be £360. A 3% service fee on this booking subtotal would equate to £10.80. So, on the £360 booking, they’d earn £349.20. In return for this booking fee, Airbnb provides services including guest identity verification, reservation screening, damage protection, a 24 hour safety line, liability insurance, exposure to a large global audience, and more.

We’re back with another quickfire question, so test your knowledge again!

Which of these best describes a holiday let? Is it

a) A property exclusively for long-term rentals

b) A property let out to holidaymakers for short durations, or

c) A property available for continuous stays longer than 31 days

The answer is B. a holiday let is best described as a property let out to holidaymakers for short durations

**Short-term rental regulations**

When letting out their property, your clients will become responsible for the health and safety for their guests, as well as having to meet UK standard regulations. These include:

Ensuring that their property is safe for families and children

Installing secure hand railings on all stairways

Eliminating any trip or slip hazards throughout the property

Displaying signalled warnings about potential hazards like low ceilings

Providing a list of emergency contact numbers for guests

Minimizing the risk of fire hazards within the property

In addition to these safety considerations, they must also furnish their property adequately to meet the criteria for a furnished holiday let (FHL).

**Understanding holiday let tax**
As with a regular residential property, your clients will be required to [pay tax](https://www.sykescottages.co.uk/letyourcottage/advice/article/a-guide-to-buying-a-holiday-let#:~:text=To%20mortgage%20a%20holiday%20home,number%20of%20property%20owners%20off.) on their holiday-let investment. However, these taxes will be slightly different to those on a regular home.

Council tax on a holiday-let property usually costs slightly more than a regular property, it is also important to consider that council tax on second homes may differ for different regions. For example, Wales has increased tax on second homes.

Furnished holiday let tax is a form of Capital Gains Tax relief that can provide relief on certain tax payments if your client’s property is fully furnished, including entrepreneurs’ relief, when they sell the asset. Remember, it is important that clients seek qualified tax advice.

In the process of purchasing another property for holiday letting, it's crucial that your clients factor in the expenses associated with Stamp Duty Land Tax. This particular tax mandates property owners to pay an extra 3% on top of their existing rates. Unlike standard stamp duty taxes, this variation applies to the entire purchase price of the property.

Income Tax is applicable to any money your clients make from their holiday let. The good news is, unlike regular buy-to-let properties, there's currently no limit on how much mortgage they can deduct from the profits of their holiday let. This is especially helpful for property owners with a mortgage on their holiday property.

It’s important that landlords check the rules in their local areas before financing and listing their holiday lets. Some locations require hosts to obtain a business license before they can start operating. Consulting with an expert before initiating the process is a recommended step to navigate potential legal obligations and enhance the overall success of the holiday let venture.

It’s time for our third and final quickfire question.

What is a responsibility that comes with letting out a property for short-term rentals?

a) Providing a free parking space for guests

b) Ensuring the property is safe for families and children

c) Offering complimentary breakfast

That’s right! Ensuring the property is safe for families and children is the correct answer.

**So, what finance options are there for holiday-lets?**

The first is Traditional holiday-let mortgages

Holiday-let mortgages typically require a more substantial upfront financial commitment, compared to residential mortgages. with deposits ranging from 25% to 30% of the property's total value—significantly higher than the 5% to 10% commonly required for standard home mortgages. Clients can also anticipate slightly elevated interest rates in comparison to buy-to-let or residential mortgages, this is due to the niche nature of this product, the presence of fewer providers in the market, and the inherent seasonality of the holiday-let business.

The irregular and peak-dependent income associated with holiday lets can pose a heightened risk for lenders, often leading to a preference among lenders for smaller building societies to offer these products, rather than large high-street banks. Typically, these lenders offer deals structured around two-year or five-year fixed rates, though variable rates may also be available.

When seeking a holiday let mortgage, your clients should consider several key factors. While specific requirements may vary among providers, focusing on some overarching considerations can guide them through the process more effectively.

Lenders usually require a minimum income of between 20,000 to 40,000 pounds, and lenders typically establish a maximum loan-to-value (LTV) ratio ranging from 70% to potentially as high as 75%. Opting for a lower LTV, such as 60%, could potentially secure a more favourable interest rate. It's worth noting that a deposit ranging from 25% to 30% is typically required.

When seeking optimal holiday-let mortgage rates, lenders typically request a projected rental income assessment, requiring borrowers to demonstrate the ability to generate a gross (pre-tax) rental income ranging from 125% to 145% of the monthly mortgage repayments, calculated at a 5.5% interest rate.

Additionally, eligibility criteria often include ownership of a primary residence, with applicants typically expected to be 21 years of age or older. It's important to note that holiday-let mortgages cannot be secured for a main residence. Furthermore, certain lenders may impose portfolio limits, restricting the number of holiday lets an individual can own, with limits potentially as stringent as ownership of only a single property.

Bespoke buy to let mortgages are designed to accommodate short-term and holiday-let businesses, characterized by its tailored lending approach. This product allows for borrowing amounts extending into the multimillion-pound range over a 5-year term, even in situations involving complex circumstances. Whether an individual or a business entity, the bespoke buy-to-let mortgage can be customized to suit specific needs. However, as these loans are bespoke it’s worth noting that they are likely to be more expensive due to the personalised level of service.

Conversely, a bespoke bridging loan presents itself as a potentially viable financial solution, particularly for supporting the initial property purchase. Bridging loans can offer your clients the flexibility to secure breathing space, enabling them to arrange a more sustainable, long-term financial solution without the concern of missing out on timely investment opportunities.

**Property refurbishment loans**

Using bridging loans for property refurbishment is also common for holiday-let investments. After all, the décor and facilities must be first class to attract higher paying holidaymakers. Clients will often want to add specialist features or a touch of luxury to the property, which may result in additional refurbishment works.

**Large loans**

Large loans among holiday let buyers can also be a popular choice. The reason? The investment can include the purchase of the property itself, the refurbishment and renovation of the property, or even a complete conversion. Furthermore, if the investor is looking to purchase a holiday let in a desirable part of the country, the property price is likely to be higher than other, less desirable, areas.

It is important to note that consulting with a professional is always recommended when deciding on the best finance to suit your client’s situation. As well as the investment strategy itself.

Well done! You’ve made to the end of MFS’s holiday let investment training course! Make sure to stick around and answer the test questions to receive your certificate.