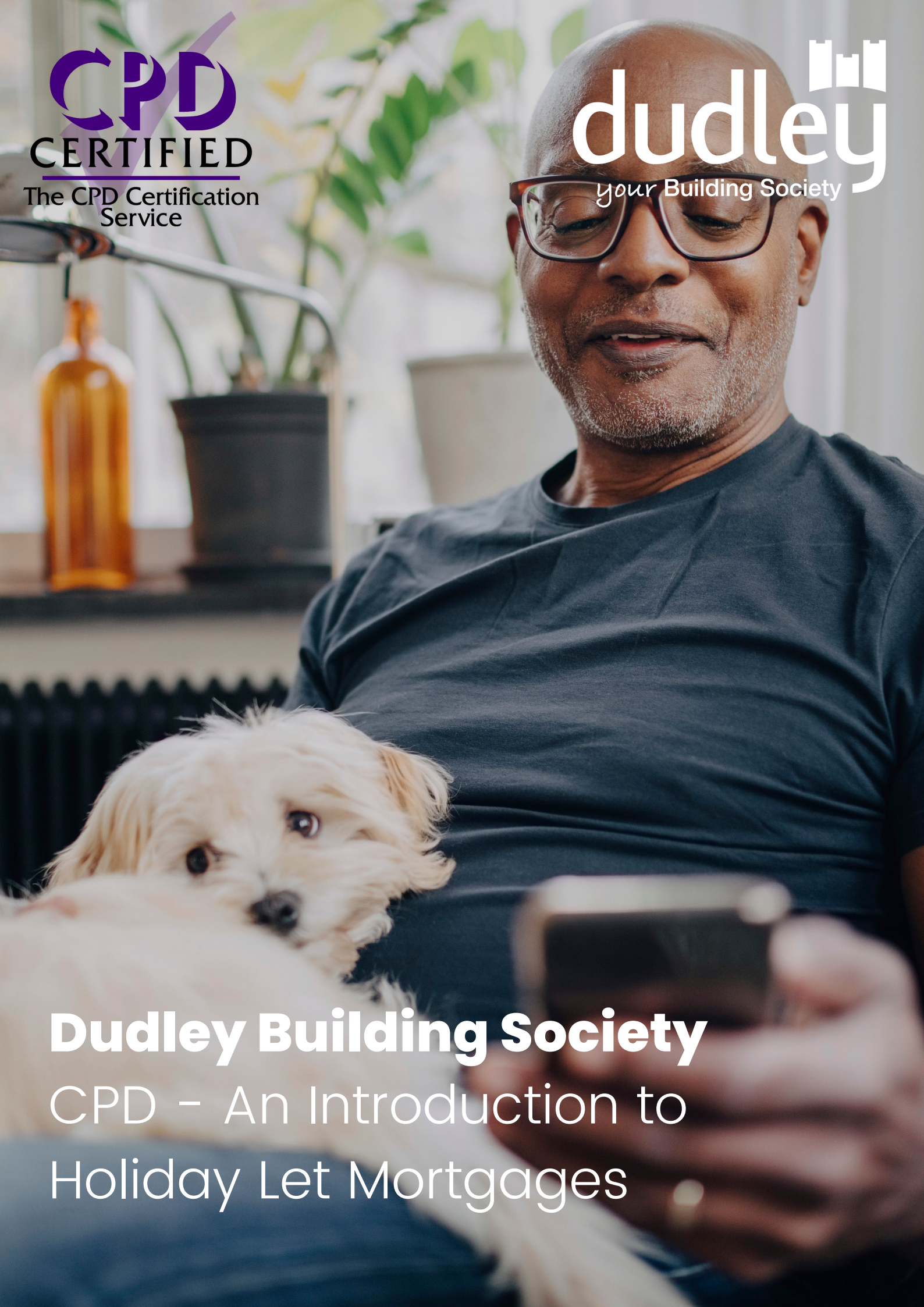

CPD CERTIFIED
The CPD Certification Service

dudley
Your Building Society

# Dudley Building Society

## CPD - An Introduction to Holiday Let Mortgages

# Introduction

The following document will provide you with detailed information on the holiday let mortgage market, as well as information on how this ties into Dudley Building Society's lending criteria. The written text should take approximately 15 minutes to read.

Once you have finished reading the text, you can complete a series of quiz questions. There are 10 questions to complete. Once finished, you can find the answers on page 7 of this document.

**Learning objectives:**

- To understand the main drivers behind consumer demand in the holiday let market and which type of lenders operate within it
- To understand Dudley Building Society's key criteria in relation to holiday let lending

The written content has been divided into three sections:

# Section 1

## Holiday Let mortgages

Holiday let mortgages are loans on properties that are let out to holidaymakers at certain times throughout the year, or across the entire year. Economic uncertainty and the rise in staycations has led to significant growth in the holiday let mortgage market in recent years. Historically, the sector has been underserved by mortgage lenders but there are signs that it is a market with increasing domestic demand.

## Lenders in the Market

The holiday let mortgage market is niche and consists of a small number of building societies and specialist lenders. Products are available for both house purchase and remortgage, with most lenders placing occupancy restrictions within their product options e.g. owners can occupy the property for up to a maximum of 60 days per year.

Maximum loan-to-values vary from 60 per cent to 75 per cent and borrowers can choose between a range of fixed, discounted and variable products. Some market lenders also offer holiday let mortgages to expats.

Holiday let mortgage applicants can be considered from the age of 18 years, while there are also lenders that do not have a maximum age restriction for holiday let borrowers. It is common for market lenders, when calculating rental income, to apply an average of the expected yield during low, medium and high seasons. This takes into account the seasonality fluctuations in rental income associated with holiday lets.

## Consumer Demand

According to data gathered by Visit Britain, 99 million trips by UK residents took place in England between June 2019 and June 2020, leading to £19.4 billion of spending. Destinations like Cornwall, the Lake District, Devon and Dorset saw the greatest interest. Visit Britain's 2021 forecast is for a recovery to £61.7bn in domestic tourism spending, which is a 79 per cent increase compared to 2020. This, however, is still only 67 per cent of the level of spending in 2019.

According to data released by Sykes' Holiday Cottages in February 2021, searches for UK holidays, to be taken in July and August 2021, were up 129 per cent year-on-year. Devon, Cornwall and Cumbria saw the largest growth in bookings for summer 2021.

# Section 1

## Drivers

Holiday lets have become increasingly popular with landlords in recent years who seek to take advantage of tax incentives when compared to traditional buy-to-let properties, e.g. tax relief on a fully furnished holiday let. From April 2017 there has been a phased removal of tax reliefs on traditional buy-to-let properties. This has resulted in increased demand for some of the buy-to-let market's underserved sub-segments such as holiday lets. Holiday lets also provide the potential to earn higher rental yields in peak seasons.

An increase in demand for UK staycations has also accelerated the holiday let market's growth. Since March 2020 international travel restrictions, imposed due to the Covid-19 pandemic, have exacerbated the demand for holiday lets. This has resulted in several lenders launching new products within the market during the same period. Research by YouGov between October and November 2020 evidenced the shift in demand for domestic holiday lets, as it showed that 43 per cent of Brits plan to take a domestic holiday in 2021.

# Section 2

## Dudley Building Society Criteria

Dudley Building Society will consider lending to applicants who require holiday let mortgages on both a residential and buy-to-let basis, subject to a maximum loan-to-value of 70 per cent.

For purchase applications, the rental coverage will be assessed on a case by case basis. A letter from an Insurance & Reinsurance Legacy Association (IRLA) approved letting agent will be required to confirm expected occupancy rates and expected yields during low, medium and high demand seasons.

For remortgage cases, the Society requires applicants to provide 12 months history of earnings and will annualise the rental income for assessment against our Interest Coverage Ratio.

Non-standard construction and properties with occupancy restrictions can be considered subject to an upfront referral to an underwriter. The Society can also consider consumer buy-to-let applications for holiday lets.

# Section 3

## Case Study

- Holiday let purchase
- Single applicant employed on a full-time basis

The Society considered a case for a holiday let purchase, with the applicant requesting to borrow an amount of £285,000 with a loan-to-value of 59 per cent.

The applicant was employed on a full-time basis as a CEO and wanted to purchase a holiday let located in St Ives. The property was situated in a much sought-after location and was available for occupancy all year round. We received rental estimates from an appoved local agent based on 36 weeks use across low, medium and high seasons.

The valuer's assessment of rental income was based on a 6-month Assured Shorthold Tenancy and initially did not meet our self-funding criteria. We therefore considered the applicant's basic salary during the underwriting assessment which resulted in the case comfortably passing affordability. We also received confirmation of significantly higher weekly rental income, previously achieved on a weekly basis, via the approved letting agent.

# Section 4

## Questions

1. What are holiday let mortgages?

2. What do the maximum loan-to-values vary from among lenders in the holiday let mortgage market?

3. According to research by YouGov between October and November 2020, how many Brits plan to take a domestic holiday in 2021?

4. Why have holiday lets become increasingly popular with landlords in recent years?

5. What else has accelerated the market's growth in recent years?

6. Will Dudley Building Society consider lending to both residential and buy-to-let holiday let mortgage applicants?

7. For purchase applications, how will Dudley Building Society assess the rental coverage?

8. For remortgage cases, what does Dudley Building Society require applicants to provide?

9. Can Dudley Building Society consider non-standard construction and properties with occupancy restrictions for holiday lets?

10. What else can Dudley Building Society consider for holiday let mortgage applications?

# Answers

1. Loans on properties to be let out to holidaymakers at certain times throughout the year, or across the entire year

2. 60 per cent to 75 per cent

3. 43 per cent

4. To take advantage of tax incentives when compared to traditional buy-to-let properties, e.g. tax relief on a fully furnished holiday let

5. An increase in demand for UK staycations

6. Yes

7. On a case by case basis

8. 12 months history of earnings and Dudley Building Society will annualise the rental income for assessment against our Interest Coverage Ratio

9. Yes, subject to an upfront referral to an underwriter

10. Consumer buy-to-let applications