Price, location and rental potential all come to bear on recreational-property investing

Vacation properties

There's nothing more iconic in recreational real estate than the vision of the old cabin on the lake or the ski chalet in the mountains. It's the Canadian dream, a property that's a legacy for the family and a statement of social status.

According to a recent survey by **Royal LePage**, Canadians are willing to make sacrifices to own a cottage, and a new wave of younger buyers is now active in the market.

The survey found that 64 per cent of Canadians view cottage ownership as a sound investment and 55 per cent would be willing to make compromises to buy one

I hear many people also talking of retiring to a recreational paradise, but where do you start, and what do you pay for it?

Buying

Pick your location. What kind of property do you want? For use in the summer or winter? What about all seasons?

In Canada, it's very typical that most vacation properties are within a four to five hour drive for a weekend getaway. While others, such as "snowbirds," prefer warmer climates like the southern United States or Mexico. There are endless opportunities for international living but be careful as property laws differ greatly from Canada. Make sure you get professional legal assistance.

What is your price range? The first step should be to get pre-qualified with your banker or broker who specializes in vacation properties. This area of finance can be tricky so make sure you work with someone with specific experience.

> The more remote the property, the higher the down payment and fewer amount of lenders

What type of property? There is a wide variety but the three most common are freehold, leasehold and condo (strata). They can be further broken down into timeshare and fractional ownership.

Western Canada has an over-supply of quality vacation properties right now which *Western Investor* readers are well aware. Developers are offering some really sweet deals. There are many resort towns that offer all amenities and year-round activities. These communities will have hotel condos that are professionally managed and generate income for the owners. Be sure to check condo documents for past financial performance. Other ownership schemes such as fractionals (part ownership) and timeshares are popular, but can be difficult to finance. Have a lawyer review all legal agreements before signing because it is critical you understand exactly what you are buying and what you may be responsible for in the future.

Freehold and leasehold properties can range from a trailer pad to a small cabin to a house.

Waterfront is the most expensive whether on a lake or river. One sticking point is dock permits. If the property doesn't have dock access, check with the local government for permits, as some areas are very strict. If you are not on the water, be sure to confirm access through public or common property. I've seen a case where a house was 200 feet from the water but legal access was two miles away.

INVESTING

WARREN VIGNAL

Other major items to investigate with remote or acreage properties are water supply, septic, power (continuous electrical service or off-grid generator). Also is telephone, cell service or Internet available? If not you might be looking at a satellite phone if you need to keep in touch. Remote properties are also notorious for high insurance costs and lack of fire insurance. If you are not in a fire district then there is no local fire department. If a fire starts you have to put it out yourself. Security is important because remote properties are targets for thieves. Also check that you can access the property year-round.

Having your own place mean repairs and maintenance. If you don't want to spend your holiday fixing up your property, consider a property that is professionally managed, such as a condo hotel.

The bottom line. Do your research and try before you buy. Investigate local shopping and activities. From personal experience I recommend asking about mosquitoes in the spring. I won't even go near a remote lake in B.C. from April to July. Consider resale potential but buy for long term to avoid market fluctuations. When the recession hit, the vacation-property market was the first to go. There are many great deals out there but you have to put in the work to find them.

Financing

While some types of properties are more difficult to finance than others, there are creative ways to acquire loans for almost any property, as long as you can make the payments. Here are the most common finance methods.

• **CMHC insurance**: **Canada Mortgage and Housing Corporation**'s second home mortgage insurance program allows for you to purchase a second home with as little as 5 per cent down. There are lots of rules on who and what qualifies so make sure you understand the in-depth criteria. Go to www.cmhc.ca for more information.

•**HELOC:** Use the equity in your primary residence to obtain a home equity line of credit from your bank. Use the proceeds to purchase the property. The interest rate will typically be at prime, and your vacation property will be free and clear, as the loan will be against your main residence.

• **Conventional loans**: With 20 per cent to 25 per cent in down payment cash, you can talk confidently to most banks. However, some lenders may require you to put up a higher down payment to reduce their risk. Another option is to try the local credit unions in the area of your property. They will have a better understanding of local conditions.

• **Farm loans:** If the property is zoned agricultural, you may qualify for a low-interest loan from **Farm Credit Canada** if you intend to set up a hobby farm. Its mandate is to help Canadian farmers.

• **Private lenders**: – If you are not able to qualify through conventional channels, private money may be an option. Expect to put up more down payment and pay higher interest rates.

Tips for buyers

A few points to keep in mind:

• The more remote the property, the higher the down payment and the fewer amount of lenders;

• When making an offer, allow for a due diligence period of four to six weeks;

• If you rent out the property you can write off some expenses, but not 100 per cent if you use the property for personal use; and

• Get advice from legal and tax professionals before signing any legal agreements.◆

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Vancouver Island