

VACATION PROPERTY

BUYER'S GUIDE

ARE YOU THINKING ABOUT BUYING A VACATION
PROPERTY OR AIR BNB INVESTMENT?

HERE IS WHAT YOU
NEED TO KNOW.

real
Real Broker

STEVE
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& ASSOCIATES

INTENTION. PLAN.

IS THIS VACATION HOME OR INVESTMENT?

Is this a vacation home or an investment?

Yesterday I was out showing some buyers at the ski hill who were looking for a “vacation property”. As we got further into the conversation, we discovered that they wanted an investment property more than a vacation property.

If you are an investor, focus on the numbers. You might be better off buying a more traditional property elsewhere and renting a vacation property for a week or two every year with the money you make from that.

Let me tell you a story....

My wife and I bought a lake house a ways back. We romanticized the idea... “We can rent this out, and we can stay here for free!” Guess what? We can use it all the time, pay top dollar for it and maintain it. Or... We can rent it out on Air BnB and cover a good chunk of the payments and use it on the crappy months where nobody would want to be there anyways.

In hindsight, we should have bought a regular / boring investment property, then used the cash flow to enjoy a week or two at somebody else’s Air bnb on the lake.

“If it’s an investment, don’t fall in love with the idea of using it.

If it’s a lifestyle choice, don’t expect it’ll make you rich.”



GET YOUR MORTGAGE PRE-APPROVAL IN ORDER THE RIGHT WAY!

Vacation and resort properties can have rules and regulations that can make financing much more difficult than a traditional purchase. It's important that there is clarity and understanding to make sure everybody is successful.

We've had buyers who are pre-approved for a million+ with their bank, but that same bank won't even give them \$350,000 to buy a condo at the ski hill!



Let's stay on this subject for a little bit.

There are a number of things that most lenders really don't like when it comes to financing vacation properties.

- Most banks don't like lending on short term rentals. So showing up with a listing that's boasting about Air BnB and the outrageous income that you will make, might actually hurt your ability to get financed.
- "Rental Pools", "Front Desks", "Hotel Condo", "Fractional Ownership", and things like this are big turn offs for lenders. If the listing is talking about these things it will slow you down or even make financing impossible for you.
- Make sure your lender explores the zoning before spending too much time. We've seen buyers get 2 weeks into their financing application and then had the bank come back with "we don't lend in a resort area".... Asking the question up front is worthwhile.
 - Does your lender know that the zoning is?
 - Are they familiar with that type of lending?

Who you work with matters!

We have the right lender we can recommend. You need a lender who knows how to position your application and these types of properties so you aren't disappointed!



CITY AND ZONING BYLAWS

Can you imagine if you bought a property thinking you'd rent it out only to have the bylaws change and make it so you couldn't rent it out?

What you should be looking for is a clear set of rules from the municipality. It's also good to check and see if they are talking about changing the rules. There have been a number of cities that don't really have a set of clear rules. You can bet that they will in time. In our opinion, you are often better off to be in a municipality that has a clear rule book.



CONDO/STRATA BYLAWS

If the properties are in a condo / strata, you should:

- Check the bylaws to make sure short term rental is allowed.
- Check the meeting minutes to make sure they aren't talking about changes.
- Ask the management if there are any discussions around making short term rentals off limits.



Pro Tip. Who else is in the complex and how are they using their units? If you find that half the owners are vacation owners and doing short term rental, that's going to be safer than buying into a building where you'll be the only one.



RESTRICTED ZONES

The BC government just created new legislation starting May 1, 2024 regarding Short Term Rental Restrictions.

<https://www2.gov.bc.ca/gov/content/housing-tenancy/short-term-rentals>

There have been a number of other places that have created blanket policies about what you can and cannot do with your property.

You better know this all in advance!

EXISTING BOOKINGS

If your property is already a vacation rental, there are probably bookings that need to be honored. Ask the question and make sure the bookings work for you.

You might not want to buy a property that you won't be able to use for half a year!



PROPERTY MANAGEMENT

SHOULD YOU HIRE ONE?

If you are self-managing, don't fool yourself. It is a lot of work, and you need to treat it like a business. We have clients who manage their own properties and have super low vacancy and peak rates. However in contrast we know people who self manage who are at 25% of the industry average.

If you are hiring a management company, here's some things you might want to know in advance. Just because you recognize the name or they have a great website, that doesn't mean they'll do a great job for you.

- Can they show you a few properties that they've managed for more than a year?
- What kind of condition are they in?
- Can they show you "owners statements" of similar properties that they have been managing?

- If you want your property maintained and an amazing guest experience, it would make sense to see how they are looking after other people's properties right?
- What is their rate and what does it include? We've seen management companies in our area who charge up to 50%! That's a lot.
- Do they have references of people they've managed for? Call these people, ask what service is like, how are they maintaining the property? Ask if there any hidden charges or surprises? Ask what are they actually taking home on an annual basis?
- Book a stay at the unit you are thinking of buying. How's the experience from start to finish?

Let's be REAL. If your property costs you \$15,000+ out of pocket to keep it annually, wouldn't you be better off to just buy a vacation or two every year??



RESTRICTIONS/ BLACK OUT PERIODS

Just because you own it, doesn't mean you get to use it. Some management groups will have black out periods where you cannot stay (say goodbye to that Family Christmas in the mountains that you've been dreaming about!)

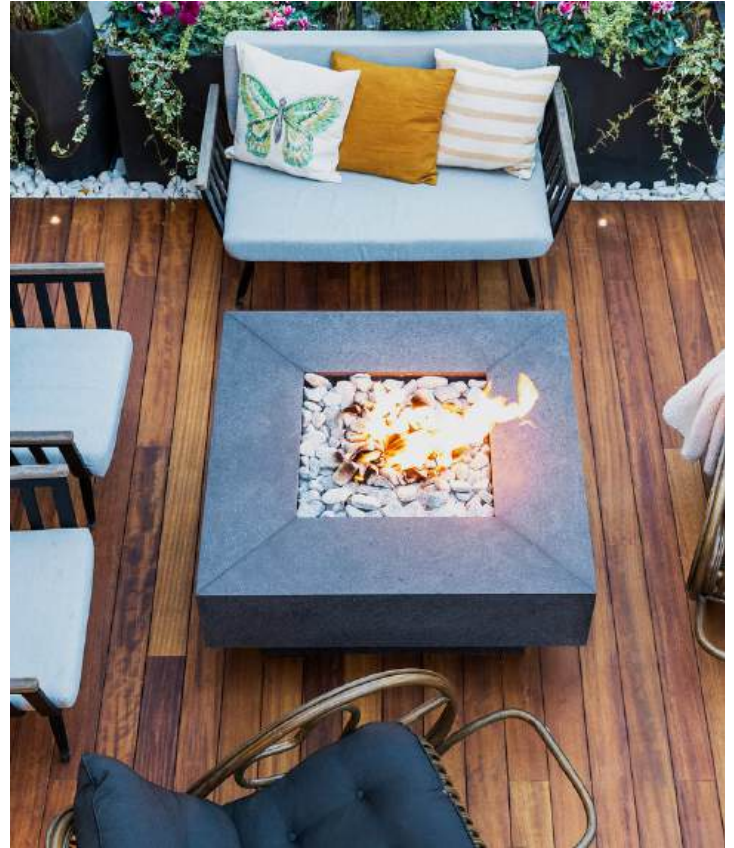
Also, some management contracts will have terms that you need to give up several days for free.

EXCLUSIVE MANAGEMENT AGREEMENTS

We recently met a couple who'd fallen prey to this. The condo costs them about \$3,000 a month. They were receiving only \$1,000 a month for more than 2 years from the management group. Right there is a \$48,000 loss!

This couple wanted to take back control and rent it themselves, but the resort had an "Exclusive Management Agreement" that didn't allow it.

The owners could have made this one work even as a traditional rental, but instead were forced to sell because they were locked into a management contract.



IS FURNITURE INCLUDED?

It would be fairly common that all furniture would be included when you are buying a vacation property. However.... That's not always the case.

To avoid disappointment....

Make a detailed list of what you expect to be included and be clear about what will be removed.

There are also certain terms that should be included in your offer to purchase to keep your lender happy. Most banks will not lend on furniture as part of the value. Ask your REALTOR®!

TAX PLANNING

YOU NEED TO READ THIS PART!

Talk with your accountant / tax professional!! This is no substitute for professional advice.

Did you know that GST might be applicable on the purchase of your property? This can be a costly mistake. Can you imagine if you are buying a property and then realize you agreed to pay 5% GST on the sale price?! That could be \$20,000 to \$50,000, \$100,000 or even more!

Ask the question and make sure it's clear in writing in the offer who's responsibility it will be.

Depending on how you plan to use the property, the GST might not be that big of a deal... Ask your tax pro!

Here's another fun fact. If you buy a property and then use it as a vacation rental, you might need to charge GST when you sell. That obviously makes your listing far less competitive in a market where there may be alternatives that don't have GST applicable.

CRA has this definition :

The purchase of a vacation property that has been occupied as a place of residence or lodging since it was constructed or last substantially renovated is taxable where the vendor has claimed input tax credits (ITCs) for the GST/HST paid or payable on the last acquisition of the property, or in respect of improvements made to the property since its last acquisition.

The purchase of a vacation property is also taxable where the property is not used primarily (more than 50%) as the vendor's place of residence and all or substantially all (90% or more) of the rentals of the property are for periods of less than 60 days (i.e., the property is operated like a hotel-type establishment, for example, it is included in a rental pool). As a result, most purchases of previously occupied vacation properties that were placed in rental pools are taxable.

If the vendor is an individual or a personal trust and is not a registrant, the purchase of a vacation property is taxable where the property is capital property used primarily in a rental-income business carried on by the vendor with a reasonable expectation of profit.

If the vendor is an individual or personal trust that is a registrant, the purchase of a vacation property is taxable if the property was used primarily in making taxable short-term rentals, even though the individual or personal trust may not be engaged in a business carried on with a reasonable expectation of profit.

Here's the link to that site if you want to read more:

[The GST/HST and the Purchase, Use and Sale of Vacation Properties by Individuals - Canada.ca](#)

Here's another fun fact. If you convert to a different use (say you go from a short term rental to a long term rental), then there may be some GST implications at the time of change: More on that here:

[Tax alert: new rules for short-term rentals in B.C. | MNP](#)



TAX PLANNING CONTINUED...

We are not quite out of the woods yet with taxes, penalties and rules.... You might need to know about:

Canada's Underused Housing Tax (UHT)
<https://www.canada.ca/en/services/taxes/excise-taxes-duties-and-levies/underused-housing-tax.html>

British Columbia Speculation and Vacancy Tax
<https://www2.gov.bc.ca/gov/content/taxes/speculation-vacancy-tax/how-tax-works>

Again, do not consider this advice, consult your tax professional.

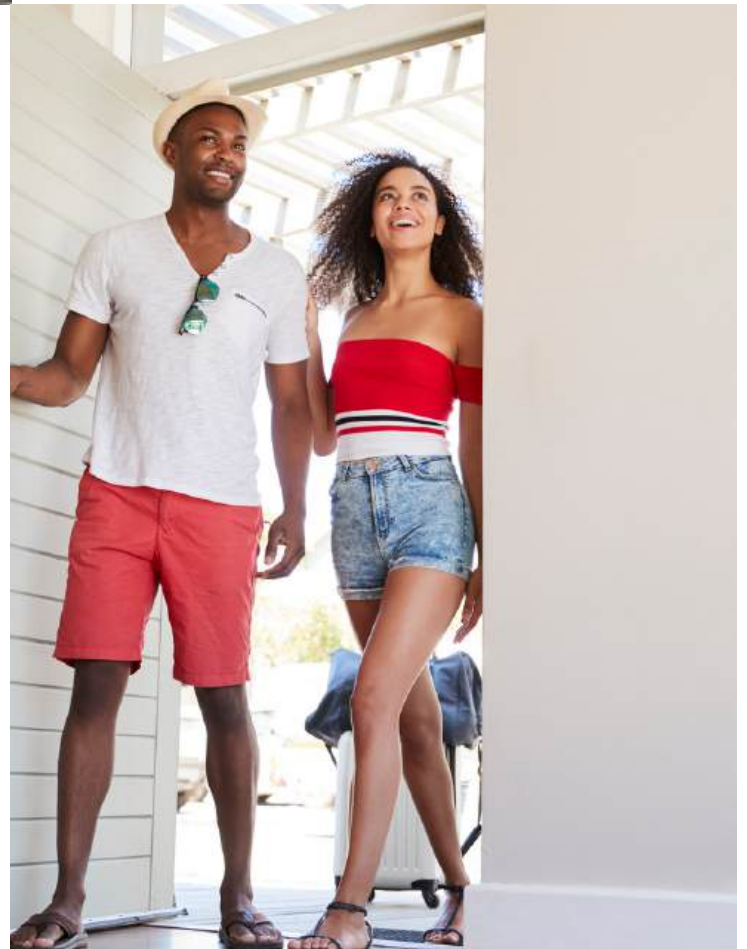
You better know this all in advance!

DO YOUR HOMEWORK

Don't get stuck in a bad deal.

If done right, buying and owning a vacation property can be one of the best things you'll ever do. You can build wealth, have cash flow, enjoy lifelong memories with family and friends and maybe have a legacy property to pass down to future generations!

If you are interested in knowing more about buying a vacation property, connect with us directly.



*YOUR DREAM VACATION PROPERTY
IS WAITING FOR YOU!*

WANT TO LEARN MORE?

Whether it's a charming lakefront cabin or a secluded mountain retreat, we're here to help you find the perfect getaway or your next investment.

Let us guide you through the process and connect you with stunning properties tailored to your vision.

VISIT

WWW.REALKOOTENAY.COM

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