



FEATURE Smaller downpayments allow easier route to investing in the booming recreational market

Buying vacation real estate

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Values for recreational property in Western Canada have soared in recent years, making the concept of a buying a vacation as much as a financial decision as a lifestyle choice.

Demand from aging boomers has pushed the price of a typical cottage up as much as 200 per cent over the past five years. Resort condominiums now cost as much as a home in town.

There is a segment who may choose to purchase their summer home now and forego buying revenue property altogether and others who may have already come through a cycle of buying for revenue and are now looking at ways they can secure their recreation property for personal use.

But unless you were lucky enough to inherit Granddad's cabin, the thought of buying your own piece of recreational paradise can be a daunting task for most young families.

With prices on the rise and demand for recreational properties still high, there is one bright light for homeowners looking to pick up a second home or vacation property. The **Canadian Mortgage and Housing Corporation (CMHC)** along with at least two other insurers have recently come out with a program that will provide Homeowner Mortgage Loan Insurance for borrowers with more than one residential property.

This means that you can now get a CMHC-insured mortgage on a vacation property with as little as five per cent down. It's called the Second-Home Mortgage program and it's available through most lenders.

Traditionally, getting a mortgage for a vacation was a challenge. Lenders typically make lending decisions based on risk, and financing properties in remote areas where they might have limited resale potential was considered a



The vacation cottage – such as this idyll on Pender Island – has proven a blue-chip investment which can now be financed with the same ease as a principal residence.

higher risk. To mitigate this risk, lenders would require borrowers to put more money down – typically 35 per cent or more. Even popular destinations such as Whistler still required a minimum of 25 per cent down payment.

95 per cent loans

But lifestyles are changing and these changes affect decisions that Canadians make regarding how and where they live. So CMHC has made a move to put vacation properties within reach of more Canadians. With the recent increase in demand for such properties, they have now determined that the market is such that they are willing to insure lenders against potential losses. This is welcome news for those who have been longing to get a vacation property but didn't want to wait until retirement to come up with the down payment.

All CMHC products are permitted to be used with this program, and most major lenders have their own vacation mortgage products, so you

have the flexibility to choose the type of mortgage that's right for you. However, like most mortgage products it's important to be clear on a few key limitations. The purpose of this insurance product is to make it more feasible for Canadians to get a second home. It is important to distinguish between a second home and a rental property.

Not meant for rentals

This product is not intended to allow an investor to get a rental property with five per cent down – although there is a way to create revenue using this tool. The guideline states that at initiation, the property that secures a CMHC insured homeowner mortgage loan must be intended for occupancy at some point during the year by the borrower; or a relative of the borrower on a rent-free basis. If rental income is anticipated from the property at a future date, it will not be calculated for purposes of helping the purchaser qualify for the

loan. In other words, CMHC's expectation is that the purchaser will have sufficient income to service the debt on both the mortgage on their current residence as well as the new mortgage without the aid of any rental income.

Resort condos

The location of the property is not restricted to major resorts or popular vacation spots, and can be located anywhere in Canada, but there are some general property requirements. It must be suitable for and available for year round occupancy. Properties that are constructed for seasonal use, or have seasonal access, are not eligible. Properties located on an island must have year-round bridge or ferry access. Time-share interests, life leases and properties in rental pools are not eligible.

So if you do come across the perfect 'second home' for you and your family, you can now purchase it for as little as five per cent down. So what's the catch – well, there is one very important catch to remember; once you apply to get a loan insured by CMHC or one of the other insurers, you are playing in their sandbox. That means you have to play by their rules. And their rules say that you have to be able to verify enough income (according to their guidelines) to be able to debt service the mortgage on your current residence as well as the new one. This makes it a perfect product for anyone who still has verifiable income and little or no debt on their principle residence. If, on the other hand, you are a full-time real estate investor and the three year average of line 150 on your tax return does not reflect your true potential, then playing by CMHC's rules may hinder your chances of qualifying. ♦

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