Outlook remains sunny for UK holiday lets, despite potential changes

As we head into summer, the holiday let sector remains a hot topic, fuelled by impending tax and planning changes and against the backdrop of a more challenging economic environment.

Landlords have been taking appropriate measures to safeguard their investments, whether that's by diversifying portfolios, creating limited companies, or exploring new product options.

The holiday let market has boomed in recent years. Driven largely by the pandemic and the resulting rise of the staycation, we've seen thousands of people entering the short-term accommodation business. According to Generation Rent, the combined number of second homes and commercial holiday lets in England jumped 20% between 2015 and 2023.

As well as people taking advantage of the higher rental incomes on offer, holiday let also provided another option for buy to let landlords looking to boost their yields, at a time when profit margins were being squeezed in their traditional residential properties.

But is the bubble about to burst?

This year, there's been several announcements of new rules and potential measures that some feared could put a bit of a dampener on the seemingly sunny outlook for the holiday let investor.

From April next year, the tax regime for furnished holiday lettings is set to be brought in line with the residential landlord Section 24 rules, removing the mortgage interest rate tax relief. This is along with changes to rental income for pension contribution purposes and changes in Capital Gains Tax for higher rate tax payers when selling a holiday let.

It's also been proposed to introduce new planning rules for short-term lets, which would apply to new holiday let businesses, and a new mandatory national register of short-term lets.

Holiday let sector continues to grow

While uncertainty surrounds some of the measures in terms of if and when they will be implemented, many in the industry are wondering what the impact on the sector will be.

The summer is often a busy time for new holiday lets, as people return from their idyllic staycations full of dreams of owning their own romantic country or seaside escape that can double up as a side hustle and nest egg.

Will they be put off by the recent changes?

We don’t think so. Holiday lets, and indeed expat holiday lets, remain a popular area of lending for us.

We expanded into holiday lets two years ago and it’s been one of our biggest growth areas ever since. This is definitely due in part to the changing holiday patterns, but also because of how we assess applications.

A bespoke approach to tackling case ‘quirks’

Our underwriters look at each case on its own merits, adopting a completely bespoke approach. While there might once have been two or three ‘quirks’ to an application, it’s quite common now for there to be seven or eight quirks to navigate. We work closely with brokers to overcome the unique circumstances we might be presented with.

For example, we recently approved a holiday let mortgage for a property on the same title as an existing residential, and another on a hillside farm with lots of acres, steps leading to the beach and with some of the land being rented by a farmer.

We base our criteria on high, medium and low season rent rather than ICR, which means affordability can be more favourable.

When it comes to expat holiday lets, we don’t ask to see active credit in the UK. It doesn’t matter whether someone left the UK six months or 10 years ago, as long as they can show they are a British citizen.

Data from Sykes Holiday Cottages supports the view that the staycation market isn’t going anywhere just yet. Its holiday letting outlook report for 2024, released in May, showed that this year’s Easter season was the busiest to date for the nation’s holiday let owners, with an average income generation of £3,200 during that school holiday period.

It also showed an average annual income generation of £24,500 in 2023, an 8% year-on-year increase in bookings – up 71% from pre-pandemic levels – and 60,000 enquiries from new owners.

The signs are positive that holiday lets will continue to represent an attractive investment opportunity, whether to create a nest egg, side hustle, or for portfolio diversification.

While the impending changes could make it more challenging for some, it seems this will still be outweighed by the benefits – after all, anyone who's recently tried to book a family holiday abroad will know those costs certainly haven't come down.

What we're likely to see is landlords restructuring to form limited companies - our flexible holiday let mortgages are available to both individual landlords and limited companies - or making other tweaks to protect their profit margins as much as possible..

Whatever happens, advisors will be key to making sure existing and potential investors, whether based in the UK or abroad, are aware of their options, and the mortgage products available, when it comes to financing their holiday let purchases.

Claire Askham, head of mortgage sales, Buckinghamshire Building Society