



# You want a cottage, but need to find a way to pay for it. Here's what's happening in real estate now

## THE DREAM, REALIZED

Randy and Sandy Dale spent two years looking for their dream cottage. They'd begun their search in 2008, and, despite seeing plenty of properties that just weren't right, they never lost hope. Their ideal property was out there somewhere, they reckoned, waiting for them to discover it; when they did, they'd snap it up in a flash. And that's almost how it happened.

One winter day in late 2010, the place finally revealed itself to them. It was on Round Lake in Ontario's Kawartha region, just over an hour's drive from their Oshawa home. The property featured 100 feet of private, east-facing shoreline, with natural views across the bay and glorious sunrises. "It was a beautiful lot," recalls Sandy, who works for the provincial government. "It pulled all our strings. I said to Randy, 'This is perfect. This is what we've been dreaming about.'"

The only problem was that, over two years of searching, the Dales had come to realize that they could not afford their dream. They'd hoped to spend \$200,000, but it had become clear that the waterfront cottage they'd want, in the region they'd want it, would certainly cost more. That was exactly the case at Round Lake: the asking price of \$225,000 was more than they could manage on their own.

But that was okay, because they'd hatched a new plan on the fly: they'd rent out their cottage, which would allow them to purchase a more expensive one. Their revised budget, including renovations, chimed in at around \$260,000. The Dales closed the deal on the Round Lake property at \$217,000, leaving them with a good chunk for fixes. »

By Philip Preville

BEST  
ADVICE



# THEY LOVE THE COTTAGE,

That's when the surprises started. The cottage needed a new electrical system. The previous owner had built a mudroom extension over the septic tank, with one of the piers resting atop the tank's hatch. "The more we looked at the cottage, the less we saw worth keeping," says Sandy. What's more, business logic had taken hold. "To maximize our rental revenue, we had to go further in our renovations than we would have if the cottage were just for ourselves."

So they broke their budget a second time, tearing the old place down and building a brand new cottage, complete with a cathedral ceiling, for \$165,000. They finished the work in less than five months and put the cottage up for rent in July 2011 at \$1,500 per week. It's been fully rented every summer since. They typically earn about \$15,000 annually in rental fees, which covers a substantial portion of the cost of their mortgage, insurance, and property taxes.

"I'm looking forward to the day when the mortgage is paid off and we don't have to rent it out anymore," says Randy. But he knows that's at least a decade away, by which time he'll be pushing 60, which means he'll only have his cottage to himself come retirement. Eventually he'll pass it down to his daughter, who's now in her late teens. Randy and Sandy currently book their own cottage for personal use for only two weeks every summer. The family also goes up every Saturday at 11 a.m., after the previous week's tenants have left, to take care of the housekeeping and yard duties. This work takes a couple of hours; four years after they began, it has yet to become a chore. They are still in love with the place, even if they can't enjoy it full time yet. "We bring up hamburgers and hot dogs for the barbecue," says Randy. "I go for a dip in the lake and take my daughter tubing in the afternoon." Then they disappear before the next renters arrive at 4 p.m.

**The Dales' weekly run to the country is not the kind most people dream about, but it may well be the cottage routine of the future.** After a lull in the cottage real estate market following the recession of 2009, recreational property prices have risen steadily for years now, and the market is looking up for the year ahead (aside from in Alberta, where cabin prices have stalled). At the same time, however, Canadians' average household debt reached record highs in 2015. These two trends—higher prices and tighter budgets—are on a collision course. Those people looking to buy a vacation property today often need to find innovative ways to make it affordable.

For many, renting is the obvious path. "We're seeing a lot more people buying with rental in mind," says Wayne William Heine, a real estate agent with EdmontonLakeProperty.com who specializes in vacation homes. Lakefront property is harder to come by in Alberta than elsewhere in Canada, he says, which is part of the reason why prices have held fairly

# 1

## **Shoreline, shoreline, shoreline.**

It's the cottage equivalent of the old real estate rule. Renters want to be on the water; if your rental property isn't, bookings will suffer. "Everything and anything about the cottage can be changed, but the shoreline cannot," says Eric Proskurnicki of Kenslynne Cottages on Ontario's Faraday Lake. "There's no substitute for an open stretch of shoreline on a clear lake."

# 2

## **Check with the local municipality.**

Rentals can be a flashpoint in cottage country. Some municipalities don't permit short-term rentals; B.C.'s Salt-spring Island, notably, prohibits them for waterfront properties, and many other places across Canada are reviewing their regulations. "Every municipality is different," says Marilyn Ball, a real estate agent with Heath & Ball in Victoria. Ball vets the local rules for all her listings before putting them on the market. And, she says, it's crucial to think through the logistics.

# 3

## **Buy low.**

People buying a cottage for themselves might decide to spend a little more to get the right place, but renting property is a business. What's more, the best deals are to be had in winter—but it's hard to gauge the value of shoreline when it's buried under snow. Pro tip: keep your eye out for promising properties that have been on the market for a while, check out their waterfront, and then wait for winter before making your offer.

## **BUY, THEN RENT SIX BASIC RULES**

**BUT CAN'T BE THERE MUCH**  
THEY CLEAN IT ON  
SATURDAY, GO FOR A DIP,  
AND THEN LEAVE







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## BEFORE, NO ONE WANTED STRANGERS STAYING IN THE FAMILY COTTAGE

steady despite a lagging local economy. “Many buyers today plan to rent it out now,” says Heine, “and then to use it more for themselves as the years go on.”

And finding renters has never been easier. The cottage-rental business has undergone vast technological and social change. “In the past, if you wanted to rent a cottage, you had to know someone who knew someone whose family member had a place available for a week,” says Mark Bordo, the CEO of CanadaStays, an early entrant into the online vacation-rental business in Canada. When Bordo founded CanadaStays in 2007, he recalls, people thought it was a risky business proposition. “I used to attend trade shows to promote our business model, and people were very skeptical at the thought of ever staying in a stranger’s home or having a stranger stay in theirs,” he says.

Now, his site lists more than 35,000 Canadian properties for rent, and another 15,000 around the world. And CanadaStays is just one of many online services, from Airbnb to VRBO to Kijiji, that list vacation properties for rent.

Sandy and Randy Dale’s experience mirrors Bordo’s perspective. “When we started, people told us to be careful who we rented to,” says Sandy, who manages the business side of things. “We put the word out to friends and family but we didn’t have many takers. I thought, This won’t cut it. We needed more renters if we didn’t want to end up in debt.” So they gave their property a name, Pine Burrow Cottage, and listed it on [cottagesincanada.com](http://cottagesincanada.com). They haven’t looked back. They open the booking on New Year’s Day and are usually fully booked for the summer by the end of April each year.

LAURA SOETEMANS

# 4

## **Be prepared to spend, track your costs, and set rates accordingly.**

People often look only at mortgage costs when estimating rental rates. But renovation and maintenance costs also need to be recouped. You should plan future upgrades and work them into your rates. And you'll need to cover insurance costs. Sandy Dale of Pine Burrow Cottage has a flexible insurance policy that allows her to get extra months of rental insurance if she needs them. "I can buy up to six months of coverage, but usually I only need three," she says. Her policy's total cost: \$1,600 a year.

# 6

## **Charge more during high season.**

Many first-time property renters are shy about charging different rates because they feel as though they're gouging. But those 10 summer weeks are the only ones when the demand for cottage rentals outstrips their supply. Cheaper rates won't necessarily get you more bookings—but they may get you the kind of guests you'd rather not have. In the short-term rental business, you get what you charge for.

# 5

## **Cultivate long-term relationships.**

When families find a cottage they love, they'll come back year after year. Repeat renters reserve early, ensuring strong advance bookings and laying to rest the biggest financial worry of the cottage renting business—namely, "What if I can't find tenants?" Repeat guests also are better behaved because they want to be welcomed back. And as the years go by, repeat renters get to know other cottagers on the lake. Good renters make good neighbours.

Renting isn't a trend confined to first-time cottage buyers like the Dales. Even experienced cottagers are getting in on the act, including Colin McAllister and Justin Ryan, the hosts of *Cabin Pressure* on the Cottage Life channel, who purchased a split-level fixer-upper on Drag Lake near Haliburton, Ont., last summer with the specific intent of renting it out. "We both love cottaging," says McAllister, "so we figured we could share the experience." They renovated top to bottom, raised the existing structure to add an extra floor, and then built a separate, two-bedroom bunkie.

McAllister says their Drag Lake cottage is "ideal for large families who want to holiday between two neighbouring properties." The price is also tailored to large families: McAllister and Ryan plan to charge \$6,000 per week in peak season and \$3,750 at other times. "Essentially, the money raised during the rental months should pay for the upkeep of the cabin for the entire year," says McAllister.

That price tag may seem steep, but there's good reason to believe that bookings will be brisk for years to come. The lower value of the Canadian dollar—its U.S. exchange rate hovered below 80 cents for most of 2015—means that Canadian vacationers are less likely to travel abroad. And, given high household debt, they're increasingly likely to forgo a costly, full-service resort in favour of a rustic cottage with self-made meals and dry fun.

This sunny rental business outlook isn't just good news for new cottage buyers who want to offset their costs by renting; it's also a boon to those who've inherited cottage properties they otherwise might be unable to afford. When Jim Hickman's father, Norman, passed away in 2012, Jim became the owner of his dad's retirement home on a stretch of Kootenay Lake's eastern shore, about a 10-minute drive from downtown Nelson, B.C. In 1990, Norman had built a property with two suites and an "always almost" finished outbuilding dubbed the Shed. Norman had lived upstairs in the main house and rented out the ground floor. "Dad's business model was long-term rentals," says Jim. But what worked for the father wasn't necessarily going to work for the son.

It was Jim's daughters, Jessica and Mandi, who opened his eyes to what the property really was: not a suburban Nelson home, but a beautiful Kootenay cottage property on an inviting stretch of waterfront. Jim was suddenly inspired by the combination of his daughters' vision and his father's legacy: "I took some time to reflect and I realized, This is my chance to show myself and the world what I can do. I can make this place truly special." And in 15 years, he could retire to that special place, just like his father did. In the meantime, Jim is able to use the property as he needs it, usually during the shoulder seasons.

Jim also realized that turning the place into an income property was the best way to pass it down to his daughters. An easy-to-rent property is the perfect way to minimize the financial burden of an inheritance. "Renting gives them lots of flexibility," he says. "It's like a sliding scale. They'll be able to spend as much time there as they want or rent it out as much as they want, depending on their situation." {Continued on page 90}

## THE DREAM, REALIZED

{Continued from page 53}

Jim spent a lot of money updating and upgrading the property, because suddenly those expenses weren't luxuries or sunk costs, but investments that could increase his rate of return. He replaced the septic system and cleaned up the lot. He completed the work on the Shed, turning it into two separate suites, the Cali Suite and the Loft, while the original building became known as the Lodge. He launched himself into the world of interior design and renovated all three spaces from top to bottom. Jessica now manages the property.

Like the Dales, Jim Hickman spent more than he'd planned. In his case, the total bill surpassed half a million dollars, but it's been worth it. His property, now known as Hickman's Hideaway and listed on both Airbnb and VRBO, rents for \$1,500 per week. Bookings are brisk, and the property is profitable with roughly \$60,000 in revenue annually. Jim still seems pleasantly surprised with his own transformation from overstretched

inheritor and cautious landlord to canny investor, and he knows who's ultimately responsible. "None of this would have happened if it weren't for my dad."

**Today's sharing economy has become so** pervasive, so quickly, it's easy to lose track of the reasons why, just a few years ago, people used to rent their cottages quietly to close friends only, and for just one or two weeks of the year. The terms of most cottage owners' insurance often did not permit rentals. Cottagers usually held a residential mortgage, not a commercial one. And their cottage-country neighbours, who form a close-knit community, didn't always take well to the revolving-door presence of strangers next door.

None of these concerns has disappeared. Banks and other mortgage lenders take an active interest in borrowers' plans for their properties before deciding to extend a mortgage loan. "Most mortgages are for owner-occupied residences, and we expect full disclosure on the use of any property being purchased so as not to be considered a commercial mortgage,"

says Barry Gollom, vice president of mortgages and lending at CIBC, adding, "The marketability of any property is a key factor when deciding to finance a mortgage." In plainer terms: the banks are concerned about the resale value of the property in the event of default, and the wear and tear on rental cottages can have a negative impact on market value. Plus, the banks won't consider future rental revenue as part of your income when evaluating your mortgage application. What matters, says Gollom, is that your current income gives you "the ability to carry both a cottage mortgage and a primary residence."

What's more, if borrowers require mortgage insurance because they are making a small down payment, they are in for a few surprises. "Short-term rentals are always more risky, so buying a cottage to rent can be a challenge," says Ryan Smith, a mortgage broker in Kamloops, B.C., who specializes in cottage properties. Smith points out that the Canada Mortgage and Housing Corporation no longer insures second homes; while other mortgage insurers such as

Genworth Canada still do, Smith adds, “it must truly be a second home for the owner to qualify.” If it’s not, the buyer may need commercial mortgage insurance, which comes at a higher premium. But, as Smith rightly notes, there’s one way to avoid any of these mortgage-insurance snafus: “Make a 20 per cent down payment.”

In the end, people thinking of buying to rent, or of renting out a cottage they already own, need to make a paradigm shift: even if your cabin is still a labour of love, you must come to terms with the fact that it’s now a business as well.

For those who do embrace the business side of cottage rental, there’s no telling how far it can take them. From a single cottage on Ontario’s Paudash Lake, just south of Bancroft, Lindsay Wiebe and Chad Martin have grown their rental business to six cottages—all on Paudash, and all in less than a decade. It started in 2007 when Martin bought a property that included a smaller cabin he thought could provide some revenue as a rental. He painted the doors red, and the business became Red Door Cottages.

That was supposed to be the extent of the venture, and for many years it was. But in 2013, two more cottages on Paudash came up for sale, which Martin and Wiebe bought and readied for rental. Martin, 41, owns a contracting business with his own construction team, which made the renovations affordable, while Wiebe, 31, a designer, became the manager of the rental business. The larger of the two more recent acquisitions, called Golden Pine, can accommodate 14 people. “Big groups are more profitable,” says Wiebe. “It’s often three families sharing the cottage and the rental fees, so the rates can be higher.” She says that a large, all-season property like Golden Pine, if rented for 10 weeks in summer as well as on winter weekends, can produce as much as \$60,000 in revenue annually.

It’s become such a hot business that calling Martin and Wiebe “cottage renters” is no longer correct; they’ve become real estate developers and property managers. In February 2015, Martin and Wiebe bought another cottage on Paudash for \$363,000, then spent \$80,000 renovating, furnishing, and staging it. They

sold it six months later in ready-to-rent condition, complete with cutlery and appliances, for \$574,000. The purchasers use the place occasionally, but primarily they’re investors who have hired Red Door Cottages to manage the property for them.

Martin and Wiebe’s business is a hot topic of discussion in the community. Some neighbouring cottagers are happy to see their property values going up. Others don’t appreciate the constant churn of strangers and feel that Martin and Wiebe have changed the character of the lake. But, more likely, the nature of cottaging itself is changing: from a private family getaway to a sharing-economy family business. Wiebe believes that Bancroft, a charming little town, could be transformed within the next decade from a working-class community into a prosperous cottager hub. The town definitely has that potential, and its brighter future will most likely be built upon cottage rentals—the cottage country that everyone can enjoy, one week at a time. 🐾

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