

Cottage Dreams or Financial Nightmares?

You have probably said it before... "I want to take early morning walks along the sandbars. I want to have afternoon beach parties, evening barbeques and late night campfires."

It's the All-Canadian Cottage Dream.

It is easy to get caught up in the fantasy without ever considering whether a cottage is a good investment for you. The first question you should ask yourself is if you can afford a vacation home.

As the baby boomers approach retirement they are scouting out and snatching up cottages as a cozy place to retire. Due to this sudden cottage spending spree across Canada, the demand for cottages is greater than the supply pushing prices higher, according to a 2001 poll by Royal LePage.

There are about 31 million people in Canada and 10 per cent or about three million Canadians own a vacation home. Out of the three million cottage owners, 17 per cent or 510,000 plan on selling their cottage in the next few years." The problem is seven per cent or about two million of Canadians are planning on buying a cottage in the next few years. The demand for cottages is about four times greater than supply.

The good news is some of the lowest cottage prices can be found right here in Atlantic Canada. You may be surprised to learn that Prince Edward Island has some of the lowest prices for waterfront property in Canada. You can buy an oceanfront lot for between \$60,000 and \$70,000.

In Shediac the prices are still low compared to other provinces in Canada. A winterized cottage by the waterfront sells for about \$185,000. If you don't mind driving to the beach, you can find a cottage further from the waterfront for much less. For example, a winterized cottage near Shediac Bridge sells for about \$87,000.

When you are thinking about the price of a cottage don't forget to factor in the "hidden costs". These hidden costs are related to upkeep including mowing the lawn, replacing shingles, painting, and other maintenance costs.

Now that you are familiar with cottage prices, it is time to think about financing. Unlike a home, a down payment on a cottage is 25 per cent. The Canadian Mortgage and Housing Corporation (CMHC) and General Electric Insurance (GE Insurance) only insure residential properties. This means if your cottage costs \$80,000, you will have to come up with \$20,000.

But wait! If you don't have the cash for a 25 per cent down payment don't stop reading. Depending on your financial situation and where you bank there are numerous options to help you with the financing. Here are just a few examples - a personal loan, line of credit, a collateral mortgage, wrap around mortgage or a blanket mortgage on your cottage or residential property.

Some of these options allow you to combine your residential and cottage properties so you only make one payment or allow you to pay down your mortgage, borrow

against the property or refinance it without ever going back to your lawyer for new mortgage documents.

For example, you may take out a mortgage on a cottage in July 2003 for \$80,000. Two years later you decide to renovate. All you have to do is see your lending officer to sign the appropriate documentation.

Depending on which lending vehicle you choose you can have cottage payments as low as "interest only" or you can opt for a regular payment of "principle, interest and taxes".

At this point you might be thinking the hard part is over, now all I have to do is find a cottage. Unfortunately, it is not that simple. There are many things you have to think about when you search for a cottage. The most important characteristic is location. Is it close to the beach or a lake? Is it a short drive from the city? Is it easily accessible? During the winter are there places to ski, snowmobile or ice fish nearby?

If so, your cottage will likely increase in value over time and be attractive to buyers. You will also be able to easily rent the cottage when you are not using it.

Renting is a great opportunity to earn extra money. You can rent out a well-kept cottage by the shore in Shediac for about \$800 a week. In fact, you could buy a cottage for the purpose of supplementing your retirement.

Once you think you have found that special spot be sure to look at sales of comparable properties to make sure you're getting a fair price. You should also get your cottage inspected. Check to make sure the septic system and well water are up to code and inspect the plumbing and foundation for cracks.

You should also get the property surveyed. If the cottage is by the shore, chances are some of the land has fallen away and the survey is no longer accurate.

Finally, consider renting the cottage for a week or a couple of weeks to get to know your neighbours, the area, the climate, the amount of traffic and the insect population.

If you are satisfied with your property, then hurry up and get out the beach balls, roll out the barbeque and start living those cottage dreams. Cottage season is almost here!