

**FEATURE** Buying a vacation home as an income cherner demands a close look at location and management

# Diving into rental pools

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**R**ental pools have become the investment of choice at ski resort and other vacation spots across B.C. But they can offer a less than sterling income earner and investors must be careful of what they buy, where they buy and who is looking after the place while they are away, consultants say.

“You should buy first for personal use, second for potential equity growth and the third

for cash flow,” said **Scott Ulrich**, president of **Gateway West Property Management**, involved in many rental pools, both as an adviser and owner.

A resort rental pool is usually set up either as a condominium hotel or as a straight condominium purchase, which has an on-site rental pool in operation or, more rarely, one that is organized by the owners.

With a hotel condo rental pool, the investors are usually sold on the concept that they will share in the total income of the hotel — the beverage room, restaurant, catering and equipment rentals for example — as well as the rental income from their suite. In return, they agree to restricted use of their suite to make it available for rent.

In a condo apartment rental pool, the owners share all of the rental income. This protects each owner because if their unit is not rented for any reason, they get a share of the rent of all the other units. While they will not receive as much rent, it is better than zero income from a vacancy. Condo apartments that are set up with a mandatory rental pool also restrict the amount of time that the owner can use their suite. Typically, it can be 180 days of personal use a year, usually with seasonal restrictions as well. Both hotel and apartment rental pools require on-site management.

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The on-site management is crucial, but it is also expensive.

In a hotel condo it is not uncommon for the rental management commission to

be 40 per cent to 43 per cent of the rental income. The hotel will also have a franchise fee for its “flag” and there can also be payments for travel agent commissions and credit card commissions, depending on how your suite was booked. What you are left from rental income must cover the property taxes and the mortgage cost of the suite.

While there may be income to you from the hotel operations, bear in mind that the hotel must be a four-season operation to churn income year round. What many buyers forget is that if the



**In its new developments at Silver Star Resort at Vernon, Concert Properties allows condo owners to access a choice of two locally run rental pools**

hotel loses money, the individual owners may have to step up to share in the losses.

Another concern is responsibility for damage to the suite by tenants, who after all will be using the suite more than the owner will.

## Checking it out

Ulrich says that investors considering a hotel condo purchase in a rental pool should check out the following:

Is it a flag hotel? Major flags, such as **Delta**, **Westin** and **Four Seasons** will have a higher occupancy level than lesser known flags. This is because the hotel management, which is separate from the flag staff, will have access to the international reservation system. However, major flags charge a higher commission than lesser known operators.

**Location:** The hotel ideally should be in an area where there is potential rental revenue all

year round. “Your rental income may end at the end of ski season, but you have to make mortgage payments year round,” Ulrich explained. With the general downturn in tourist travel this year, hotel occupancies are running in the 50 per cent range, even at Whistler.

**Management:** Understand who is managing the building, what their track record is and exactly what services they will perform.

**Financing:** Lenders will look at a hotel rental pool investment as a business loan, not a residential purchase. As a result, you will require at least a 25 per cent downpayment.

## Apartment pool

It is usually a safer investment to go into a condominium apartment rental pool. They are less complicated, lenders are more comfortable with financing and generally the appreciation potential is higher, Ulrich said. ♦