

# Thinking of Owning a Cottage?



Winter weather can be harsh, but many Canadians endure the snow, ice and bone-chilling temperatures by casting their thoughts ahead to summer and the warm, carefree days awaiting them at the cottage.

Maybe you grew up going to the family cottage or spent time with friends at their summertime getaway. Perhaps you never had the vacation property experience but find the idea appealing.

Whatever the case, as an adult you may have the opportunity to purchase a vacation property, but should you? It's largely a matter of choice and whether a cottage fits your and your family's lifestyle.

## Financial aspects of cottage ownership

Aside from lifestyle considerations, the financial side is also extremely important. As with real estate in general, these days the cost of buying a vacation property continues to rise. Can you afford to make a substantial down payment and take on a mortgage? Do you still have a mortgage on your primary residence, or other sizeable debt obligations like maxed-out credit cards and extended lines of credit? Are you able to save for goals such as post-secondary education for your children or retirement?

Buying a cottage needs to match your financial circumstances. On top of mortgage payments, there are also costs for property maintenance, repairs, utilities, insurance, property taxes and more. These expenses can add up in a hurry and strain your finances. You certainly don't want cottage ownership to become stressful, or it would be better to rent a cottage as desired and avoid the financial burden.

## Generating income from your property

While owning a vacation property is expensive, there are ways to offset costs. For instance, you could rent out the property when not using it. If your cottage is appealing and located in a desirable area, you can earn a decent income by renting it. This income will help pay your mortgage and may allow you to achieve full ownership sooner. For tax purposes, you can also deduct certain expenses (such as those mentioned above) on a prorated basis for the number of days annually that you rent out your property, which may lower your income taxes.

Of course, other considerations enter the picture. Do you want strangers living in the family cottage and potentially damaging it? Are you willing to market your property to prospective vacation goers? Can you put the time and money into property upkeep and preparing the cottage for the next group of renters – and then the next group and the one after that? Should you hire a company to do this ongoing work? Being a landlord isn't for everyone and operating costs can pile up, but many people do it successfully so it's a matter of choice. Also remember that rental income is taxable. Consult with your advisor or tax specialist to determine the potential implications of this additional income source.

## Investment considerations

You could view cottage ownership as an investment whose value is poised to grow, and that may be the case. But how high will the value go, and how much money will you invest in the property over time? It's hard to predict future trends in real estate pricing, as you must consider factors such as location, economic conditions, prevailing mortgage rates, etc.

If you choose not to buy a cottage, you could put more money toward investing in traditional assets like stocks and mutual funds with a track record of growing in value over time. And, if you invest using tax-efficient vehicles like RRSPs and TFSAs, you'll benefit even more.

The bottom line is that each person's circumstances are unique. If you can afford cottage ownership without negatively impacting your various financial goals, and if the lifestyle suits you and your family, then it could be worthwhile (and enjoyable!) to consider.

**We can help you decide if a vacation property is viable given your financial circumstances. Contact us today to see how cottage ownership may fit into your overall financial plan.**

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