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## Strategies To Buy The Perfect Vacation Home

By Marjorie A. Cohen

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Everyone knows the standard summer safety tips: Only swim where there's a lifeguard, apply sunscreen liberally, drink plenty of liquids. But there's one item your financial advisor would probably like to add to that list: Beware of the sudden, seemingly unstoppable urge to buy a second home in the place where you just spent two idyllic weeks of vacation. As one financial website puts it: The summer is "a time to relax, kick back and make dumb financial decisions." Buying that home may not be such a dumb decision after all, but it needs to be one that's made with your head and not your heart – and only after consulting financial, legal and real estate experts.

If you do decide to buy a vacation home, you will be part of a rising trend that the National Association of Realtors (NAR) has been tracking since 2003. NAR's 2015 survey reports that the purchase of vacation homes soared to a record high in 2014, with an estimated 1.13 million vacation home sales. The typical buyer had a median household income of \$94,380 and bought a property a median distance of 200 miles from their primary residence. Lawrence Yun, NAR chief economist, calls it "astonishing growth" that nearly doubled the combined total of vacation home sales of the previous two years.

**So what's behind the surge?** Yun attributes it to the fact that "affluent households have greatly benefited from strong growth in the stock market in recent years" and there's been "long-term growth in the numbers of baby boomers moving closer to retirement and buying second homes to convert into their primary home in a few years." Linda Rheinberger, a regional vice president of NAR who lives in Las Vegas – "ground zero when the market fell," as she describes it – thinks that some of the reason for increased interest in vacation home buying now is that "people are tired of worrying when the next shoe will drop, their outlook on their finances [is] 'calmer' than a few years ago" and they don't want to put off buying the vacation home they want.



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**Note:** In this post, we are talking about purchases primarily for the buyer’s or his/her family’s personal use, not purchases made principally as an investment. (See [Vacation Home Or Income-Producing Investment?](#)) Interestingly, the number of vacation home buys for investment purposes has fallen for the fourth year in a row.

#### DECISION STRATEGIES: 6 QUESTIONS TO ASK YOURSELF

When it comes to the vacation home decision, Karyn Glubis, a broker in Tampa, Fla., has this advice: “Take your time. You don’t have to buy the first property you fall in love with...just like dating, there will be another to choose from that in the long run may be a better choice.”

And, before you say “I do,” ask yourself these six questions:

## 1. CAN I AFFORD IT?

This is probably the most important question of all. For the answer to this, disengage heart, engage brain (and the brains of your trusted financial advisors). Calculate what the costs of owning a vacation home will be, including:

- mortgage payments
- property taxes (which may be higher for non-residents than for residents)
- insurance (post Sandy, flood insurance on the East Coast has skyrocketed)
- water, gas, electricity
- association membership in resort developments
- trash removal
- landscaping
- an alarm system
- the cost of someone to watch over the property while you're away

And, you need a “slush fund” for the inevitable emergencies: Financial consultant David Monberg suggests that you set aside 1% to 2% of the purchase price of your home.

**A calculation that may help answer the “is it worth it?” question:** Estimate the number of weeks you will be spending in your second home each year and multiply that times the weekly rental rate at a favorite vacation spot. Is the rental more or less than you would spend on the second home? Andrew Novick, a Pennsylvania-based financial planner, says: “A good rule of thumb is to keep housing costs – for one or two homes – below one third of your income.”

Owning a second home is as much a lifestyle, as it is a financial investment issue. Monberg suggests starting with a thorough financial analysis – what are your long-term goals, and how will the second home purchase affect them? “Will it get you off course on your savings plan or your investment model? Is this a new goal or one that’s already been figured into your planning? Are you ready to add another five years to the timeline to accrue enough for retirement, for your kids’ college education?” There are no guarantees, he says: “You can’t factor in a ‘perfect scenario’ – the market will go up and it will go down. You need to factor in the bad times and the good because there will be both.”

**For high-net-worth families:** When considering the financial ramifications of purchasing a vacation home, Nikolay Djibankov, a financial advisor with the Matterhorn

Group at Morgan Stanley Wealth Management, explains that typically for families with a net worth of under \$10 million the primary questions are “can we afford it, what is the impact on our cash flow and long-term wealth plan, should we liquidate investments or finance the purchase with a fixed or variable mortgage?” For those with a net worth of more than \$10 million, the issue becomes “how to structure the purchase of the property in order to mitigate estate-tax liability when property passes on to children and grandchildren? Structures such as the [Qualified Personal Residence Trust \(QPRT\)](#) may be useful – consult a reliable estate-planning attorney for advice on this.”

## 2. SHALL I BUY IT WITH MY FRIEND, MY BROTHER, ANOTHER FAMILY?

Co-ownership is one route to making the purchase of a vacation home financially feasible, but as broker Lee Williams cautions: “Get all the terms in writing. Nothing will strain or ruin a friendship faster than not having had a full discussion of potential issues before the deal is done. If you’re buying with another family, will both of you be using it at the same time? What are the guest policies? What happens if one family uses the home more often than the other?” And what happens if one family gets tired of it and wants to sell?

## 3. HOW WILL I USE THE HOME?

Are you really going to use this second home enough to make it worth the purchase? Tyler Gray, a financial advisor in Oklahoma, asked one client who wanted to buy a vacation home whether he could see himself vacationing in the same place for the next 15 to 20-plus years. “He answered, ‘No, of course not!’ We sat in silence for 10 or 15 seconds before the lightbulb went off in his head...for him it was a much better plan to simply rent a vacation home so he wouldn’t feel tied down to one place.”

If you do plan to rent out your home to offset the costs, be realistic about the income you’ll be able to generate, and be sure to check all of the building documents and association bylaws (if you’re in a resort community) and familiarize yourself with local laws that impact renting. (For further reading, see [Buying A Second Home To Rent: Dos And Don’ts.](#))

Peggy Fucci, a broker in south Florida, recommends that you turn to your broker to oversee the renting of the property if that’s the route you want to take. Remember, too, that being a landlord may not be something you’re going to want to be and that having

someone else manage your property and rentals for you can carry with it a hefty fee – sometimes as much as 50%.

#### 4. WHERE SHOULD MY VACATION HOME BE?

If you are like most vacation home buyers, you want to buy in a place that's totally unlike where you live full-time. Rheinberger says that 9 times out of 10 people want a climate, scenery, just about everything to be different from their primary residence. Forty percent of all vacation home purchases are in a beach area.

To see what are the most popular destinations for online searches for vacation homes, check out [Trulia's interactive site](#). Click on a city, and you'll see what the top five most popular vacation destinations are in that area. According to this map, are top five in the U.S. are Ocean City and North Wildwood, New Jersey; Kissimmee, Florida; Ocean City, Maryland and Marco Island, Florida.

If renting out your home is part of your plan, you'll want to buy in an area that attracts tourists. Ben Kinney, a realtor in Washington, suggests checking out Airbnb, HomeAway, VRBO, LoveHomeSwap, VRBO and Flipkey to find out what the favorites are on these sites.

**To be sure you really like a location, rent before you buy.** Novick recommends to his clients that they do this for a year. As he points out, "it can be an expensive mistake if the perfect vacation house turns out to be in the next town over." Spend time in your prospective vacation home during all four seasons. "What is serene in the spring can be noisy and chaotic in the summer," cautions realtor Melanie Siben.

Sharon McIntosh, a broker in New York City, bought a 1920s vintage Montgomery Ward kit house two years ago, which she's been renovating and restoring ever since. She recommends that you look at the transportation possibilities. "How will you get there? If the drive is more than two or three hours you won't want to go every weekend; I set my own limit at two hours," she says. "How will your guests get there? It's great to be on a train route, even a bus route is fine for some." Also to consider, she says: Do you need hiking, swimming, access to restaurants, cultural activities? If the latter, consider a college town. Do you want to get away from it all or be with others who share your interests?

If you have young children, be sure that there is enough entertainment for them as well. Contact the local school district, recreation department, religious institutions to get a feel for what's available for kids; talk to parents in the local grocery store and at the playground.

## 5. WHAT KIND OF HOUSE WILL IT BE?

The majority of vacation home buyers purchase a single family home; 27% buy a condo and 18% buy a townhouse or row house. Tammy Barry, who does sales and marketing for Heritage Harbor Ottawa Resort in Illinois, says that buyers need to decide whether they want “the turnkey, maintenance-free lifestyle of a townhome or condo community or the extra space of a single-family home.” Either way, “vacation homes are places meant to spend time with friends and family; open floor plans and flexible spaces that can be turned into extra sleeping areas when company comes are what people want most.”

According to the NAR survey, the size of vacation homes declined by 200 square feet from 2013–2015, but some in the biz would like to see it decline even further. Dan Dobrowolski, founder of [EscapeHomes](#), designs 400-square-foot cottages, many starting at \$75,000. He promotes them for their beauty, affordability and portability. “We can produce and deliver a new authentic cottage-style vacation home within 60 to 90 days and folks can begin living in them immediately.” Who buys these “tiny homes”? According to Dobrowolski, “young couples and families, empty-nesters, single men and women, you name it.” Recent clients included a Silicon Valley couple who are putting theirs on property in wine country and professors at the University of Iowa who are putting theirs by a lake.” (See also, [Financial Considerations Of Buying A Tiny House](#).)

## 6. WHAT ARE THE TAX IMPLICATIONS OF A VACATION HOME?

Current laws offer several tax breaks that can help make second-home ownership more affordable. If you use the property as a second home, not as a rental, you can deduct mortgage interest as you would for a primary residence. You can also deduct property taxes. When you rent out your property for more than 14 days, the [rules](#) get more complicated. (For further information, see [Tax Breaks For Second-Home Owners](#).)

## THE BOTTOM LINE

When to buy, where to buy and if to buy a vacation home is a decision that requires careful research, rational calculations and the advice of a variety of experts from

financial advisors to real estate lawyers to brokers. As real estate broker Melanie Siben says, "You'd better love, love, love the home you are going to buy because if investment potential is the reason you're buying this home, you definitely need to reconsider."