

You may think it's too expensive, but more people are taking the plunge.

Can You Afford A Second Home?

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Owning just one home isn't enough for a growing number of families. From rustic cabins to beachfront manses, second homes accounted for 36% of all residential property sold in the U.S. last year, according to the National Association of Realtors.

Fueling the market are recreation-minded baby boomers, awash in savings or equity from their primary homes. Some are buying with an eye toward retirement or as an investment, while others want a vacation getaway to enjoy now and pass on to their children later.

Finding a suitable place, however, can be daunting given the myriad options. And while prices are retreating—which could mean better deals this year—you'll still need to consider your budget if you have your heart set on being near the water. The median vacation home price is \$200,000, while waterfront properties typically sell at a 50% premium and water-view homes at a 25% premium, real estate experts say.

Evaluate Your Finances

Can you handle the mortgage (if there will be one) or the property taxes and other expenses? Will you need to rent it out to offset these costs (and then hire a property manager)?

“Make sure you can handle the carrying costs,” says John T. Reed, publisher of the *Real Estate Investor's Monthly* newsletter, who prefers renting vacation homes to owning one himself.

Christine H. Karpinski, the author of *Profit From Your Vacation Home Dream*, suggests buying in areas where renting your home for income is not restricted. Just in case your finances change, “I always recommend buying where you can have that as a fallback,” says Karpinski.

Pinpoint an Area

Are you more partial to hilltops than seashores, or do you covet a pied-à-terre under the city lights? If you can't decide on a locale, you might opt for more than one through time-shares or fractional ownerships in condo-hotels. They offer amenities without the housekeeping and maintenance responsibilities.

Most buyers prefer to travel within 200 miles of their primary residences. Most also prefer a place that is accessible to their sports or hobbies, like skiing or antiquing.

Look for “Hidden Gems”

The best deals may be found in lesser-known places on the periphery of the so-called hot spots.

“A lot of places are brand names, but just because they're more expensive doesn't mean they're the best investment,” says Andrew Schiller, president of Location Inc., which runs the search site NeighborhoodScout.com. “People have heard of Hilton Head—it's very famous and expensive—but just a town away is Bluffton, S.C., where home prices are 20% to 25% less. You want to find places that are in the best position to run up in value and, of course, that you love.”

Watch Supply and Demand

Another way to increase value, or at least maintain it, is to own something in short supply. Areas that restrict building or that have little land left for development will often command the highest home prices, experts say.

When Christine Karpinski bought her first condo in Destin, Fla., in 1997, she chose the largest unit she could afford. “The demand for a three-bedroom was high, but supply was pretty low,” she says.

Work With a Good Broker

While Internet sites allow buyers to browse and compare regionally and nationally, local real estate agents can pinpoint specific properties based on desired home type, price range and amenities.

“You may not always know what you want, but a really good agent could extract that from you,” says David Hehman, who also suggests talking to local home owners about an area and spending some time there yourself.

Shop Around For Loans

Local lenders might offer better deals than national institutions. Oftentimes, though, lenders will charge a higher interest rate or require a bigger down payment for a second home. “When you’re not occupying it as your primary residence, lenders are going to be a bit more cautious,” says Stuart Hoffman, chief economist at the PNC Financial Services Group in Pittsburgh.

Christine Karpinski warns buyers to be wary of adjustable-rate mortgages with low “teaser” rates. You may be able to afford the initial payments, but not after rates rise.

Consider Taxes

You usually can deduct the interest and taxes on a second home. If you use the home for less than 15 days a year and rent it out the rest of the time, you must report all income, though you also may claim deductions for advertising, maintenance, depreciation and other expenses. In some cases, you even can claim a loss. But there are restrictions: If, for example, you live in the home part of the time, vacation there yourself or allow friends or relatives to use it at a bargain price, different rules apply to reporting rental income, and deductions usually are limited.