HOMEWISE Real Estate Tips and Advice

Buying A Vacation Home

By ALEX MASON | Green Shoot Media

For the right person, buying a vacation home can be a smart and enjoyable financial move.

However, times are changing, and adding a second property with a mortgage isn't for everyone.

Here are some things to keep in mind before buying a second home for vacations.

WILL YOU VISIT IT?

A vacation home can be a liability with the payments, upkeep and struggle to decide to open the doors to strangers as a rental. Some people think with their hearts instead of their heads when it comes to buying something for their leisure time and then get stuck with a home they cannot afford.

For a vacation home to earn its keep, you must be resolute to use it. If you have a chance to buy a home at a good price in an area that you intend to frequent, then no harm is done to invest in a modest property. However, many people just dream of getting away to a particular hot spot and never actually put the vacation plans in motion as they had intended.

POSITIVES

The positive side to owning a vacation home is that your belongings are secured and you have a dependable place to stay when traveling. This means your pets are always welcome and the home is outfitted with everything you need for a fabulous getaway.

You also have a second piece of property to sell and turn a profit a few years down the road. Your vacation home should be in a place that draws you like a magnet to ensure you will get your money's worth out of the investment.

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Don't rush in to a purchase of a vacation home. If you don't make a commitment to use it often, it likely won't be a good investment.

Oceanfront homes, mountain retreats or desert homes located just a stone's throw from the golf course are ideal vacation properties that will get good use.

If you intend to rent out your vacation home to generate some income, those same features are likely to bring in consistent renters. In popular vacation areas, you often can find the rental history of different properties to get an idea of how much income you'll be able to generate after your purchase.

Finding a good property management company is key, though. As an out-of-town owner, you want to make sure your renters and property will be taken care of, so look for a vacation management company with a long track record and lots of happy property owners.

NEGATIVES

Investing in a second home may be a burden if your primary residence is still carrying a mortgage. In addition to the monthly payment, your vacation home is going to have property taxes, landscaping issues and general repair to keep it in mint condition.

Renting the property out comes with its own risks. By letting strangers into your home, you're running the risk of theft or property damage that could turn your vacation dreams into a nightmare. Make sure you carry good insurance and pick a great property manager if you go this route.

REAL ESTATE 101

The Costs of Renting

The Internal Revenue Service lists the following as expenses the owners of vacation rentals may incur:

- mortgage interest
- real estate taxes
- casualty losses
- maintenance
- utilities
- insurance
- depreciation

TIME SHARES

One solution to own a piece of property and keep the responsibility at bay is to buy a timeshare. These types of vacation homes generally are located in premium tourism areas with plentiful city amenities to include shopping, dining and entertainment.

It might be possible to sell your timeshare unit once you've had your fill, but owners are required to pay property taxes and may be stuck with an HOA monthly fee.

In addition, the timeshare is yours to use for a limited amount of time each year. Most plans allow for a one- to two-week session in the unit with the option to rent out your turn in the unit for a small profit. Although you will be in the same timeshare unit each visit, remember that strangers will occupy it the rest of the year.

A timeshare is just a step up from a hotel room, so if you want absolute privacy and control, buy a low-cost condo instead.

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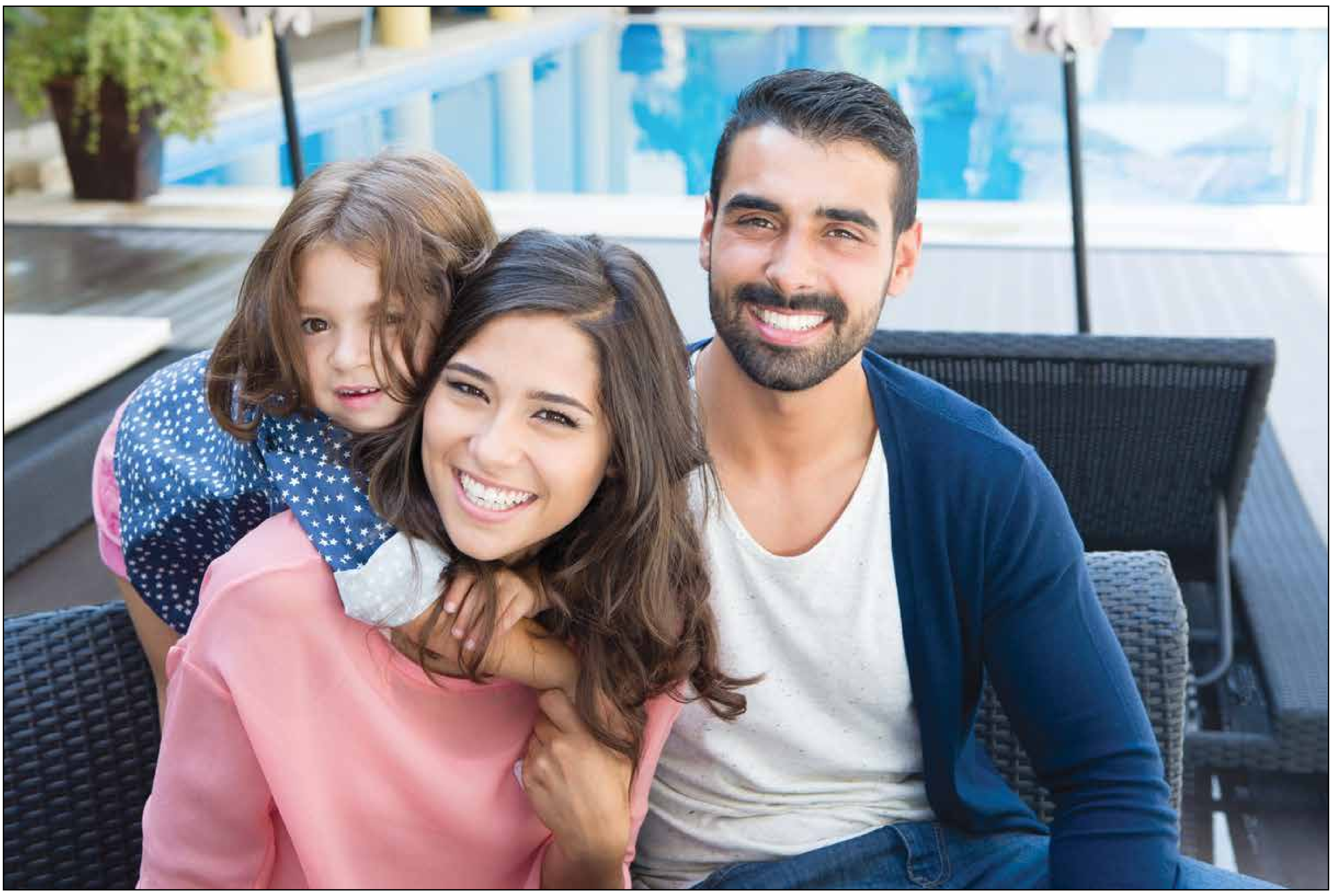

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HOMEWISE GLOSSARY

secondary residence: a property that a borrower occupies in addition to his/her principal residence.

cash flow: cash flow is cash that property investors or owners receive after deducting operating expenses, replacement reserve deposits, and debt service payments from the EFFECTIVE GROSS INCOME (gross rental income less vacancy and bad debt loss plus miscellaneous income) for a rental property.

SOURCE: U.S. Department of Housing and Urban Development