

So You Want to Buy a Vacation Home . . .

Presented by C.J. Ferrari and Mark Miller

As the weather warms up, many people are thinking about summer plans—and possibly dreaming of buying a vacation home. Although the idea of having a permanent “home away from home” may sound appealing, purchasing a vacation property isn’t something to be entered into lightly. If you’re considering this major commitment, here are some important questions to ask yourself.

What’s your budget?

The process of buying a second home generally starts with the financials. In addition to the cost of the property itself, you need to consider other expenses such as:

- Property taxes
- Insurance
- Repairs and maintenance, landscaping, and utilities

If you’d need to take out a second mortgage to finance the purchase, you’ll have to decide if getting further into debt makes sense. Do your due diligence to see if you’re a candidate for a second mortgage, including reviewing your income-to-debt ratio (lenders look for a number below 36 percent) and your current credit score.

How will you use the property?

A key factor in the financial calculation is whether you’ll use the home solely as your personal vacation residence, turn it into a rental property, or some combination of the two. Many people use rental income from a second home to offset the mortgage until the property is paid off. If you rent out the home for fewer than 15 nights per year, you can keep the income without reporting it to the IRS. If you rent it out more than that, you must report the rental income, but you also qualify to claim certain deductions.

How much you get to deduct depends on how you divide your personal time at the property and the rental time. If you spend 14 nights per year at the home, or more than 10 percent of the number of nights it is rented out, whichever is longer, the IRS considers the home a personal residence, and you can write off typical rental expenses against your rental income.

Who will manage the property?

If renting the vacation house is part of your plan, it’s important to consider who will take responsibility for:

- Overseeing the property for you (including cleaning, repairs, and the like)
- Coordinating with renters
- Assessing the local rental market to price the property accordingly (too high may lead to vacancies; too low won’t maximize your investment)

If you live a considerable distance away from the second home, hiring a local property manager is an expense that can’t be overlooked.

What kind of insurance will you need?

Insurance is a necessary protection for any piece of property, and vacation homes can present additional risks. There are many options to choose from, so it's important to do your research. Some insurers may offer a second-home endorsement to your primary residence coverage instead of selling you another stand-alone policy, which may be a more affordable choice.

Additional insurance considerations include:

- **Location:** Aside from a spectacular view, be sure to consider points like neighborhood crime rate, natural dangers common in the area (flood, hurricane risk), and the history and state of the property itself.
- **Amount and type of liability coverage:** Whether the house will be vacant for extended periods or rented by many tenants over the course of the year, it's imperative to ensure that you have sufficient coverage and to adjust it over time if necessary.

How easy would it be to sell?

Eventually, if you decide to sell the property, you'll want to be sure you can make a profit. Popular vacation areas tend to have higher property appreciation rates, but location isn't everything. You should plan to invest in upgrades and maintenance along the way to maximize the return on your investment.

Making a wise choice

Buying a vacation house can be an exciting accomplishment (and possibly a great investment), but it requires serious consideration, especially from a financial standpoint. Ensuring that you have the means to comfortably purchase a second home—and recognizing the additional expenses that come along with it—is key to making a smart decision that your family will enjoy for years to come.

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