



Daniel A. White + Associates

Low prices lure vacation-home buyers

But think hard about how you'll use the home before buying

By Amy Hoak

At \$200,000, the condo unit was a bargain considering it had been priced at more than \$400,000 in the past, said Barton, 52. Plus, since the couple rent out the home when the family isn't using it, they're able to cover their mortgage payments and all their expenses—and make a profit.

Lately, more people are wondering if the market is ripe for turning the dream of owning a vacation retreat into a reality.

Prices on vacation homes have fallen even more sharply than on primary homes. Last year alone the median price of a vacation home fell 11%, while the price of a typical primary residence fell 5%, according to the National Association of Realtors' annual Investment and Vacation Home Buyers Survey, which includes information from about 1,900 buyers.

In some cases, people are scooping up cabins in the woods for less than \$100,000, said Charlie Young, president and chief executive of ERA Real Estate, a residential real-estate brokerage franchiser. Even some individuals who rent their primary residences are looking to buy a vacation property in a more affordable market, Young said.

But unlike a primary residence, a vacation home is a discretionary purchase, and in times of financial uncertainty, people are reluctant to shell out unnecessary funds.

It's wise to think about a vacation-home purchase carefully, looking at the financial and tax implications, and monthly maintenance costs, said Michael Kay, president of Financial Focus, an investment advisory firm in Livingston, N.J. Potential buyers also should consider the opportunity cost of making the purchase, or the benefits of investing the money elsewhere, he said.

It's also important to have a plan for making

payments in case you suffer a financial reversal, such as a job loss. Kay did that himself when he and his wife recently bought a vacation home in the Berkshires in Massachusetts.

"We put away a year and a half's worth of maintenance expenses, real-estate taxes and insurance into our own little escrow account," he said.

Dan White, president of Daniel A. White & Associates, a wealth-management firm in the Philadelphia area, said prospective vacation-home buyers need to be cautious before acquiring more debt, carefully considering the stability of their employment before committing to another mortgage. White said he has worked with many people in their 50's who suddenly find themselves out of work. And if they have a second mortgage on a vacation home, that becomes a big problem.

Before buying, you also need to come to terms with how much you really will use the home and how you will maintain it, said Troy Thiel, a real-estate agent with First Weber Group in Madison, Wis.

An important factor for many people is how long it takes them to get to the vacation home: A two-hour drive from their primary residence is often more palatable than a four- to five-hour trip.

Buying for now, and later

Some baby boomers are seizing an opportunity to get a deal on a vacation home they can enjoy now but that's also a home that eventually will become their primary residence when they retire, Thiel said.

"That's one of the primary drivers in the market: people selling their big house and buying a smaller home or condo in their current market and using the equity to purchase the second home," he said.

According to the National Association of Realtors' survey, 34% of people who purchased a vacation home in 2010 plan on using that property as a primary residence at some point in the future.

For those who already are maxing out contributions to their retirement plans, the idea of buying a vacation home with their extra cash has some appeal, White said.

"A lot of people are worried about the [stock] market today because of the volatility and the fact we could be going into a double-dip recession. They're looking for other avenues. Real estate, if we're not at the bottom [in prices], people think we're pretty darn close," White said.

Renting it out

Another consideration: Will you rent out the house when the family isn't using it? To go that route, you must be comfortable with the idea of strangers sleeping in your home, Kay said.

Many people who own vacation homes end up renting them out at least some of the time. It's not a surprise, considering that 48% of vacation-homeowners are able to cover 75% of their mortgage from renting to travelers, according to HomeAway, an online marketplace for vacation rental homes.

Some vacation-home owners rent out of necessity because they can't keep up with the mortgage payments. "For a lot of people, that's their fall-back [plan]. If we have trouble making the bills, we can rent it," White said.

But for others, like the Bartons, renting the vacation home is part of the plan from the start. "We knew we had to rent it to help it pay for itself," Kelley Barton said.