FPA FINANCIAL PLANNING PERSPECTIVES

During the Real Estate Freeze, Vacation Homes Might Be a Warm Spot

Many of us have taken a vacation and found an idyllic spot where we'd love to retire, spend the weekend or telecommute. Some people have actually bought property spontaneously *while* on vacation – and while that's not always a horrible idea, it is better to have a strategy.

Finding a relative bargain on vacation property involves research and a solid knowledge of your own finances. It involves knowing something about the market, too. Some thoughts:

Who else is buying? Any real estate purchase involves a market analysis. Don't assume that just because the residential market's in trouble that vacation real estate necessarily follows where you're looking. Keep in mind that in some areas of the country that foreign buyers are a factor thanks to our wheezing dollar. If you like the area and the property, talk to real estate agents, residents and other people who know the town well to see if you can be ahead of the curve in making a purchase.

Know where your money's coming from. There are plenty of people who finance second homes out of the equity from their first home, but given today's slow real estate market, it's a risky option. Before you even start looking for a property, think about what a second home purchase will do to your overall financial picture. First determine the impact on your long-term financial plan. Will you still be able to retire at the same age? Will you have enough money to educate the kids? Then look at your lending options. Many lenders require buyers to put down at least 20 percent on a second home. Keep in mind that your primary home lender may not want to tackle a vacation home mortgage. While you're planning, clean up your credit first, shop your lending options and get pre-approved first. Above all, get some advice from an expert like a Certified Financial Planner™ professional.

Understand what you're buying. Even if you haven't pinpointed a specific home or condo, you need to understand all the cost and environmental issues of owning property in that community. You need to know appreciation rates on similar properties and if there are plenty of sale signs nearby (do people want out?). You need to know about all the potential environmental risks to your property from hurricanes to mold.

Plan for upkeep: An unattended structure is subject to crime as well as wear and tear that can accelerate when owners aren't present daily. Talk to your insurance agent about insuring out-of-town property. Also, while there are often qualified paid caretakers in vacation communities to help protect and maintain your property, they can be expensive and you need to make sure they're bonded. Think of anything terrible that can happen to a property and then plan solutions – before you buy. And don't forget the cost of utilities, telephone, cable, property taxes, etc. All these upkeep costs often add up to a surprising amount.

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Is it a fixer-upper? Keep in mind that in some resort or vacation areas, property may be landmarked or otherwise legally protected even if it looks like it's falling down. Before you become convinced you've snagged a bargain and you're dialing a contractor, check with local real estate agents and City Hall to investigate all the possible protections and restrictions on the property you're examining.

Are you going to rent or occupy? Renting out a vacation home is a good way to cover some of the cost, but lenders often factor in a 25 percent vacancy rate when determining your qualification for the loan. Plus, you have to play landlord with people you may never meet, and that can be risky. Rental property is a business, so treat it as such.

Talk with your tax advisor. Vacation homes may or may not offer some tax benefits to you depending on your overall tax situation. Ask your tax advisor to run the numbers for you. But don't make the move for tax reasons alone. If your dream vacation home fits into your financial plan and life and you've done your research, it may be time to buy.

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This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by a local member of FPA