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

Can You Afford A Second Home?

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By Vivian Marino
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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 shorefront 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

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MORTGAGE CALCULATOR	
Enter your details and click "Calculate"	
Loan Amount \$	<input type="text" value="80000"/>
Annual Interest Rate	<input type="text" value="6.0"/> %
Term of Loan	<input type="text" value="20"/> Years
<input type="button" value="Calculate"/>	
Number of Payments	<input type="text"/>
Monthly Payment \$	<input type="text"/>

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, says David Hehman, president of EscapeHomes.com, a Web site with vacation-home listings. Most also prefer a place that is accessible to their sports or hobbies, like skiing or antiques.

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.

Where The Bargains Are

A few emerging-market favorites:

East Coast: Blue Hill, Maine; Guilford, Conn.; Carolina Beach, N.C.; Lexington Park, Md.; and Port St. Joe, Fla.

West Coast: Port Townsend, Wash.; Gold Beach, Ore.; McKinleyville, Calif.; and Kapaau, Hawaii.

Mountain and Lake Retreats: Bigfork, Mont.; Wallace, Idaho; Bella Vista, Ark.; and Heber City, Utah.

Source: NeighborhoodScout.com

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What They Don't Tell You About Rental Property

By mhempton on 7/15/2007 1:41:PM

We bought a condo in Florida about 10 years ago for \$73,000. The taxes were only \$800 a year and the HOA was \$125. We wanted a place to come to when we retired. Then the boom hit Florida. Our condo over a 6 year period appreciated to \$215,000! We were thrilled! During this time we rented out the condo to cover all our expenses. Now we would like to use it as our second home. The taxes per year are \$3400, if this was our primary residence it would only be \$1,000. If we made it our primary residence at this point it would only give us a \$500 break, so it would be about \$3,000. Florida believes in socking it to the tourists. The HOA on this 20 year building is \$3,600 a year and this year the special asses*****t for a new roof is \$3,400. The HOA has no reserve. Our unit is paid off, but we are paying about \$11,000 a year. We are only allowed to rent the condo once a year, and if you want to rent it from May thru December it is almost impossible. We would sell it now if we could, but these days you can hardly give condos away! Still we have doubled our money. Now I'm trying to decide weather we ride this out or sell for say \$160,000. Because this is not our primary residence, if we sell, we must buy something else immediately or pay very high taxes on the appreciated amount.

I Wish I COULD Afford A Second Home

By PARADereader on 7/15/2007 1:15:PM

Great article! I would give anything to be able to afford a second home to get away from the daily life. This article does include some helpful tips on how to move in that direction. :)

What about insurance?

By pwblackwelder on 7/15/2007 9:29:AM

Your article omits one of the most important and potentially most costly expenses in purchasing a second, or primary, home at the coast, INSURANCE! State Farm cancelled our homeowners insurance this year because of our proximity to the ocean. We had been a customer of theirs for over 30 years and have never filed a claim. Ironically, they also cancelled our insurance agent's beach house policy as well. There are very few companies that will insure a single-family residence that is within 1000 feet of the ocean. In addition, last year condo owners here who had been paying \$500 per year for insurance are now paying \$4000 or more! The housing market in our area is down this year so there are "bargains" to be had, however, when fire, wind, flood and hurricane insurance is included in the equation, it loses its bargain status.

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