

Do You Really Want to Own a Second Home?



A second home could become a drain on your retirement finances.

The real estate market is heating up again after the devastation of the great recession, particularly in retirement meccas like the Carolinas, Florida, Texas and Arizona. Much of the activity comes from retirees selling their family homes in the north and moving to the sunbelt. But a significant portion is also due to retirees and pre-retirees buying a second home at the beach or somewhere else in the sun. They might be anticipating the place where they will eventually move full time. If they can afford it, some people keep their main residence, but also want a retreat where they can get away from the world.

For some people, having a second home is part of the retirement dream. You stay in your hometown with friends and family, but also have a small bungalow at the beach or a condo in the sunshine. If you're going to vacation in the same spot every year, it could be cheaper to own than to rent, but this isn't always the case. And money is not the only issue. Here are some pros and cons to consider before you purchase a second home:

Pro: You can use the property whenever you want. If you own the property, you can enjoy it at your leisure. You no longer have to spend countless hours rooting through hotel sites or home-share sites searching for something you can afford at the time you want to go.

Con: You're tied down to one place. If you own a condo in Florida, then you're probably going to Florida for vacations, whether you want to or not. Unless you have very deep pockets, it's hard to justify – much less afford – an alternate vacation to Europe, Mexico or anywhere else.

Pro: There's pride of ownership. Many people enjoy the feeling of owning their vacation spot, rather than renting, just like it feels good to own your own home instead of living in an apartment. In addition, as owner, you can invite your friends and family to join you on vacation, or let them use it by themselves when you're not there.

Con: As the owner, you're responsible when something goes wrong. Again, just like owning your own home, you are the one who has to step up when a window gets broken, the roof springs a leak or the refrigerator gives up. Also, you may be held liable if someone gets hurt falling down stairs or slipping in the shower.

Pro: You might make money renting out your second home. In many retirement meccas there is an active rental market, usually bringing in premium rents during the high season. The internet provides accessible opportunities to rent your place at your own discretion. And some vacation developments offer rental and management programs for the benefit of the owners, relieving you of that responsibility.

Con: Renting out your second home is a lot of work. If you use a management company to rent your unit, it will take a substantial cut of your revenue, depending on the services offered. If you do it yourself, then you've just bought yourself a second job.

Pro: You can make the property your own. You can decorate your vacation home the way you want and keep it nice. Plus, you can leave your stuff there, including beach chairs, sports equipment, extra clothes and other paraphernalia. You don't have to jam your car full of stuff or pay fees for extra baggage on the airline each time you visit. Buying a second home is a complex decision that requires careful thought. So keep in mind these three tips from second home owners:

Factor in how often you will visit. It might pay off to own if you spend at least three months each year in your second home. For example, a retiree from New York might spend every winter in Florida. However, if you will only have a week or two each year to vacation there, you will probably be better off renting.

Pick a retreat that is close to home. If you want your property to be a rental, select a place near your home, or no more than an hour's drive away. That way you can stay on top of repairs and keep an eye on the local real estate market.

Consider who will maintain the property. It's not easy to maintain two properties that are in different states. However, you could buy your second home in a resort community with a management company that will take care of rentals and repairs. You may not make a profit renting out your second home after the management company takes a substantial cut, but you might break even, which helps to defray the costs of owning a second home. You just might end up with a free vacation.

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