



# Benefits of Owning a 2<sup>nd</sup> Home in Today's Market

*Seems counterintuitive in today's housing market, but it might make sense*

Summer is here and with it are fanciful dreams of owning a second, seasonal home. Maybe it's a beachside bungalow or a mountain cabin or a lakefront cottage with a front porch and a sweeping view of the sunlight on the water. All of them no doubt sound enticing, but fulfilling this dream takes attention to detail and a firm vision of your long-term goals.

In today's real estate landscape, characterized by a slowdown in housing sales, higher interest rates, and still-lofty asking prices, the idea of owning a second home may seem counterintuitive. However, delving deeper into the market dynamics reveals several financial benefits that may make a second home a compelling long-term investment option. Let's explore the potential advantages of owning a second home in the current market climate, shedding light on opportunities that could yield financial gains.

## Slowdown in Housing

One factor that works in favor of prospective second home buyers is the slowdown in housing. After a prolonged period of rapid price appreciation, many markets are experiencing a deceleration in price growth. While this may concern homeowners looking to sell, it presents an opportunity for buyers to enter the market at a more reasonable price point. By purchasing a second home during this period, investors can take advantage of lower prices and potentially enjoy greater returns when the market picks up again.

## Higher Interest Rates

Though rising interest rates may make borrowing more expensive, they also provide a unique advantage for those considering a second home purchase. Higher interest rates tend to cool down demand in the housing market, leading to decreased competition. As a result, sellers may be more willing to negotiate and offer favorable terms to attract buyers. By leveraging these market conditions, savvy investors can secure a second home at a lower price or negotiate more advantageous financing options, thereby bolstering their long-term financial gains.

## Long-Term Investment Potential

Owning a second home offers the potential for significant long-term investment growth. Historically, real estate has proven to be a stable and appreciating asset class. While short-term fluctuations are inevitable, the value of well-located properties tends to appreciate over time.

By investing in a second home, investors can diversify their investment portfolio and potentially benefit from long-term capital appreciation. Additionally, second homes can serve as income-generating assets through rental opportunities, further enhancing the overall return on investment.

## Rental Income and Tax Benefits

One of the key advantages of owning a second home is the potential for generating rental income. Renting

out the property during periods when it's not being used can provide a consistent cash flow stream, helping to offset the costs of mortgage payments, property taxes, and maintenance expenses.

In addition, rental income can be subject to favorable tax treatment, including deductions for mortgage interest, property taxes, and other expenses related to the maintenance and management of the property. These tax benefits can further enhance the financial viability of owning a second home.

### Lifestyle and Vacation Benefits

Beyond the financial gains, owning a second home offers a host of lifestyle and vacation benefits. Having a retreat to escape to can provide a sense of rejuvenation and relaxation. It can also serve as a gathering place for family and friends, fostering memorable experiences and strengthening personal connections. Furthermore, a second home in a desirable location can become a sought-after vacation rental, enabling the owner to generate income while enjoying their own getaways.

### Issues to Explore Before You Buy

If the factors add up right for you now, owning a vacation home may bring years of happiness. But if the time isn't right, re-evaluate your long-term goals to see if you can buy this home in the future and avoid a ton of hassles today.

Issues to explore before you even start looking:

**Location, location, location:** Heeding the first rule in any real estate transaction, think about how far you wish to travel from your primary residence or business (and the travel costs involved), the natural or recreational opportunities, economic history and current conditions of the new region and state and property taxes.

**Financial preparedness:** Ensure that the new home won't compromise or threaten your long-term financial goals. If you have a chronic illness or medical needs, for example, you want your income, assets and savings to cover those costs first. Your financial professional can help assess your preparedness and guide your strategy to buy a second home while keeping your long-term goals on track.

**Count all costs:** The true cost of owning a vacation home goes beyond the purchase price and mortgage interest rate (if you choose to obtain a loan). Maintenance, utilities, property and state taxes, prices of seasonal activities, weather concerns and insurance all change constantly and add up quickly. Consult with a real estate agent as well as with a tax professional as you evaluate these variables.

**Investment, rental property, legacy or fun house:** If interested in this property purely for investment, think about improvements the home may require, the availability of skilled help in the locale and the economic history and vitality of the community. Also, consider how long you want to or must retain the property to get a reasonable return on investment.

Tax implications arise if you hope to derive income from renting your vacation home (a tax professional can enumerate them). Renting your property may force you to incur some additional expenses and repairs from tenants' damage, for example.

If you hope to simply treasure time at a second home and escape for solitude, recreation or making memories, the new place can potentially turn into your retirement home. Is that attractive to you? Do you hope one day to make your vacation home a legacy to be handed down for generations or is your interest more short-term?

**Co-ownership:** The more might seem the merrier when owning a vacation home, so you can split costs, but make sure you iron out what happens if one owner can't pay the agreed-upon share of expenses.

Consider forming a limited liability company (LLC), which exempts you personally from legal and financial liabilities of ownership. With the LLC owning the property, details are outlined from the beginning in case someone runs into financial trouble. Another option may be for an individual or couple to own the property and rent to others.

If you want to create a legacy, a trust can facilitate passing the property from generation to generation with the least confusion. Discord created with the other owners may outweigh the benefit of sharing the mortgage payments, taxes and other expenses, however.

Regardless of what you decide, consult an attorney to fully understand the implications of your decisions. When you're thinking about a second home, your heart and head must work together so you meet all your needs.

### **Your Financial Advisor**

Your financial advisor can help assess your preparedness and guide your strategy to buy a second home while keeping your long-term financial planning goals on track. In addition, your financial advisor can serve as a quarterback in organizing all your other advisors – lawyers, CPAs, real estate professionals, etc. – in order to gather all details, opinions and research.

So, if the warmer days of summer are enticing you to look at those dreamy summer homes, make sure you let your financial advisor know so you don't get too far extended.

Because like all financial decisions, the further out you plan your goals, the more likely you are to have a successful journey.