

Benefits of Owning a Second Home

Whether it's a vacation home or a rental property, a second home can give you many of the same personal and financial benefits as your first home. Make sure you understand the tax implications before you buy, however, so you can make the most of your home investment.

Lifestyle benefits

If your second home will serve as a personal getaway, you're probably looking forward to having a place to relax with family and friends. Whether it's a lake-side cottage or a condo by the beach, knowing that you can retreat from the hustle of daily life to your own private vacation spot has an obvious appeal.

Financial benefits

Investing in a second home has the potential to pay off in a number of ways. First, there are the same financial rewards that come with homeownership in general: tax-deductible interest* and possible price appreciation. In addition, you may be able to use the home as a source of rental income. If it's a vacation home, renting it out for part of the year can help offset the costs of ownership. If it's strictly a rental property, you can use it as a significant source of income—although the tax implications may be somewhat different.

Tax implications*

You can deduct the mortgage interest you pay on a second home, but not on an investment property. Which category your home belongs in depends on how you use it. To the IRS, a second home is one that you personally use at least 14 days per year, or at least one day for every 10 days it's rented out, whichever is greater.

Although you can't deduct mortgage interest for an investment property, you can deduct operating expenses (such as maintenance and advertising costs) that exceed the rent you collect, as well as losses on the sale of the home. Neither is deductible for a second home.

*Consult your tax advisor

Buying a Vacation Getaway

With the hustle and bustle of everyday life, many people fantasize about running off to a personal retreat, and increasing numbers of homeowners are living out that fantasy by purchasing a second home.

Choosing a location

Do you want to be in the middle of a vacation hot-spot, or enjoy the peace and quiet of a secluded location? Whichever environment you prefer, here are some things you should consider:

- **Popularity.** A house in a hot vacation market will usually cost more than a place off the beaten path. At the same time, continued popularity may help you profit from appreciation.
- **Proximity to your home.** If you plan to visit regularly, look for a place that's easy to get to.
- **Rental possibilities.** If you're hoping to offset some costs by renting the home for part of the year, find out about seasonal demand for rentals in the area.

Maintaining your getaway

Regular upkeep is more difficult with a vacation home than with your primary residence, but no less important. The value of the home, both as an investment and as a place you enjoy visiting, depends on good maintenance.

If you buy a place that's not far from your home, you may want to make weekly visits to mow the lawn, water the garden, or clean the gutters. If doing it yourself is impractical, consider hiring a vacation property management company to provide maintenance services during the times when you're not using the home.

Financing your purchase

The equity you've built up in your primary residence can be a good source of funds to buy a vacation home. With home values in many markets much higher now than they were a few years ago, many owners have experienced rapid equity growth — leveraging that equity to invest in a second home may be a smart financing strategy.

Investing in a Rental Property

Investing in rental property has become increasingly popular in recent years. That's not surprising if you consider the potential rewards: you can not only generate rental income, but also profit from increasing housing prices.

But success as a landlord requires more than collecting rent checks and riding the real estate market—there's real work involved, and substantial risk as well. Here are some tips that can help you make an informed investment decision.

Do the math

Unlike a primary residence, a rental property isn't an emotionally driven purchase—it's an investment. And as an investor, you should think about it primarily in terms of profit and loss, risk and reward. Whether you come out on top will depend mostly on two factors:

- **Cash flow.** Consider how much rent you can collect each month, and how much will be left over after mortgage payments, maintenance costs, and other expenses.
- **Appreciation.** Rental-property owners can't rely only on appreciation to make their investments profitable, but it certainly can help.

Evaluate the market

Like any other business, rentals are subject to the basic forces of supply and demand. If apartments are in short supply, you probably won't have trouble filling yours. When you are trying to generate positive cash flow from a rental property, vacancies are perhaps your greatest enemy. They cost you money and generate no income in return.

Your first line of defense against vacancies is a good evaluation of the rental market before investing. Talk to Realtors and property managers in the area, and check the frequency of rental listings in the local paper. Keep in mind that certain neighborhoods, such as those near schools or universities, may have higher demand for rentals than others.

Prepare for the commitment

Owning a rental property is more than an investment—it's a business. You have to be willing and able to commit the time and resources necessary to run your business successfully. Whether you are actively involved in the day-to-day operations or hire someone to manage them for you, make sure you understand how much time or money you will have to spend before you invest.