

Before the Vacation Home -- Think

By AMY HOAK
June 10, 2007

When Lyle and Elspeth Hohnstine became empty nesters, the couple bought a vacation home. They figured if they enjoyed their vacations near the Delaware shore, they would eventually retire there as well.

As it turns out, the home near the beach has been a magnet in attracting their children and grandchildren, and because the home is only a three-hour drive from their primary residence in Virginia, many weekends have been spent there since they bought in 2002, Mr. Hohnstine says. Soon, the home in Delaware will be their primary residence.

Baby boomers with discretionary dollars to spend, like the Hohnstines, have fueled an increase in the number of vacation-home sales in recent years.

In fact, the National Association of Realtors reported that a record 1.07 million vacation homes were sold in 2006, a 4.7% increase over 2005.

But financial planners and real-estate professionals suggest using caution before jumping into the commitment of owning a vacation home, an investment often loaded with hidden costs.

While "a good vacation home is a great way to bribe your kids to want to hang out with you when they're older," the costs of a home are often underestimated, says Kenneth A. Kamen, president of Princeton, N.J.-based Mercadien Asset Management.

Before cementing a decision to join the growing ranks of vacation-home owners, consider the following:

1 Is it really practical?

It's easy to become enamored with a place while on vacation. Some of Mr. Kamen's clients figure that they're spending a good chunk of money on vacation every year anyway -- why not invest in a vacation home?

His answer: "When you buy a vacation home, you're committing to spend that [money] going forward."

Often, when costs including taxes, insurance and utilities are factored into keeping a vacation home, families are better off simply renting a home for vacation instead, says Sheryl Garrett, founder of the Shawnee Mission, Kan.-based Garrett Planning Network.

2 Will it be affordable?

It's difficult to justify spending \$250,000 on a property that you can use only four times a year, Ms. Garrett points out. That's why it's critical for people to estimate how much they will be able to use a vacation home and what it will actually end up costing them.

This estimate should include travel costs -- not a small factor when a home isn't within driving distance. Plus, don't forget insurance, which often can be much more expensive than insurance on a primary residence, she adds.

Mr. Kamen's advice: Figure in all of the expenses associated with the vacation home and then add 10% to 15% as a buffer for the unexpected -- like when the water heater needs to be replaced or bad weather damages the property.

If you're going to have to count pennies to make mortgage payments, maybe a second home isn't the best idea, he says.

3 Consider future plans

However, if a buyer is considering a vacation home as an eventual retirement home, buying in advance to try out the new location could be smart, Ms. Garrett says.

If it's a legacy the home buyer wants to create, driven by the thought that future generations will want to use it for years to come, buying also isn't a bad idea, Mr. Kamen says. After all, even if the home is sold, children and grandchildren may be able to benefit from the asset.

4 Choosing a location

Before starting a home search, decide what the home will be used for, advises Elizabeth Hudgins, a Jacksonville, Fla.-based Realtor with Prudential Network Realty. For example: Will it be a getaway during the winter months, summer months or both?

Also consider whether nearby recreational activities are important or if it's a place for retreat and solitude, says Patti Grimes, vice president of sales and customer relations for Carl M. Freeman Companies, which built the golf community where the Hohnstines have a home.

Think about the proximity to a primary home as well. The Delaware shore communities built by the firm are popular with people from Washington, Philadelphia, New Jersey and New York because the drive to the homes isn't unbearable, Ms. Grimes says.

"What we found is that people spend more time at their vacation homes today than years ago," she notes.

The difference is they're often not spending it weeks at a time, instead leaving the office early on Friday and driving to the vacation home for a weekend away, she adds.

5 Do the research

It's fine to look at homes while on vacation, but don't buy one at that point, advises Christine Karpinski, an Austin, Texas-based author and speaker on vacation-home rentals.

There's no urgency to buy a vacation home, so buyers should take their time, she says. Instead, take the knowledge from the trip and do some homework, she suggests.

Many second-home owners don't buy a home with the intention to rent it out. But it's wise to know if a property is rentable, Ms. Karpinski says.

For one, people often rent a home out if they're not using it as much as they originally thought, and a rentable property might also be a selling point at resale, she adds.

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