

# Buying Your 2<sup>nd</sup> Home?

**Do your  
homework and  
avoid disaster!**

**Special Report Presented  
by**

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## **Buying Your Second Home? Do your homework and avoid disaster!**

**If you're ready to purchase a 2<sup>nd</sup> home where you can "get away from it all" the first step is to follow where your heart leads you. The second step is to ensure you're making a good financial investment.**

Buying a second home can be based on emotion; but you need to make some good business decisions before you settle into your deck chair to watch the sunset. Your heart has probably already led you to the ocean side retreat, lakefront cottage, backwoods hamlet, enchanting farm or Broadway apartment that renews your spirit and enables you to do the things you love. Now it's time for your head to take over, just for a little while.

**What is a second home?** A second home can be a house, condominium, cooperative, mobile home, house trailer, or boat that has sleeping, cooking, and toilet facilities. For example, did you know that an RV could qualify as a second home?

**What do you really want?** What hobbies or pastimes do you want to develop and encourage when you're visiting your second home? Are you looking for easy access to great fishing, hiking, birding, and boating? Do you crave space where you and your pets can run free? Do you want friendly neighbors, antique shops, funky stores and flea markets or the serenity that only isolation can bring? Peace or parties? That is the question.

**Location, Location, Location!** Make sure your prospective location suits the lifestyle you seek. If you like trolling peacefully for fish from your canoe or kayak then a lake that allows big motorboats and personal watercraft might not be suitable. Likewise if you love water skiing or bombing around on your jet ski then make sure they are allowed before purchasing a home by that lake. If hiking, birding and being outdoors around wildlife is on your agenda, don't buy next to a shooting range. You get the idea – do your research.

**Try it out first!** If at all possible visit a potential get away for two (or more) years in a row before you make your decision. If you're thinking about buying a mountain, hike to the summit and camp out, that's the only way you can find out what it's really like up there. Arrange "home swap" vacations to give you a chance to check out different areas. If you're starting from scratch then use the Internet to take virtual tours of homes and locations, you can even take virtual vacations. It's a start!

**How often will you use it?** How often do you plan to get away to your retreat? If you're looking for a weekend refuge then proximity will be a prime consideration and you should look for a site that is within a 2 – 3 hour drive from home.

**Do you have long-term plans?** Proximity may not be so crucial if you plan on spending more than just weekends in your 2<sup>nd</sup> home. If you are telecommuting to work, semi-retired or starting up a home-based business then you should consider this a possible long-term answer to change. Keep in mind that this home might become your permanent

residence and plan accordingly. Relocation will be a breeze if you are firmly established in your 2<sup>nd</sup> home when the time comes to sell your primary residence.

**Look for long-term suitability!** Do you prefer light and airy spaces? A rustic cabin with low ceilings might be fun as a Davy Crocket adventure on the occasional visit but is it a viable full-time proposition? Perhaps a bright beach house would be more suitable in the long run.

Keep an eye on square footage if you're eyeing a second home as a potential home office, home-based business or retirement spot. Choose one with enough space to accommodate your future needs or one that can be remodeled or added to in the future. Check zoning restrictions to see if it's legal to operate a home business in your area.

**Looking for a retirement home?** If you are considering a 2<sup>nd</sup> residence as a future retirement home then you must evaluate it carefully, this is a long-term investment. Ask some questions:

- What is the quality and accessibility of health care (hospitals, clinics, doctors)?
- Is the area safe, does it have a low crime rate?
- What's the cost of living in the area? You really have to spend some time there to compare cost of living to your existing home. You don't want any unpleasant surprises!
- Do you want to keep busy, even when you are retired? You will need to know if there are opportunities for part-time or volunteer work in the area.
- What are the cultural and educational offerings, such as Elder Hostel programs?
- Is the climate comfortable? Is it suitable for existing health conditions?

**Show me the money! How will you finance your 2<sup>nd</sup> home?** If you have the cash, great! It's just a matter of finding the right place. Remember, a cash buyer is the most desirable; you can use this leverage to get a better deal.

But if you're like the rest of us you will need to obtain financing.

- If you want a fixed-rate mortgage on the property be sure to shop around for the best interest rate.
- Consider exploring adjustable-rate mortgages with, for example, fixed interest and monthly payments for five to seven years. This may be a suitable option depending on how long you plan to own the property.
- If the sellers own the property outright, ask if they would consider seller financing. You may be able to negotiate a lower interest rate, a lower down payment, and a flexible payment plan.
- For quick cash you might consider borrowing from the cash value of a whole-life insurance policy. This is a viable option as long as you set up a repayment plan to preserve the long-term value of your policy.

**Do you need to be pre-approved?** Getting mortgage pre-approval before you launch your search will keep you competitive if you find a hot property that you just can't live without. Pre-approval is not a full loan commitment from your lender but it is a formal process usually involving a credit check and credit verification. Pre-approval shows brokers and sellers that you are serious and have a good idea of what you can afford.

**Renting out your 2<sup>nd</sup> home may be an option.** You can defray the costs of owning a second home by renting it out when your family isn't using it. The number of days in a year you rent out your 2<sup>nd</sup> home can determine if you have to claim the rental income. Check with your tax advisor.

Here are some things to consider:

- If the home is in a development with a homeowners association, you must ask if you're allowed to rent out your home. The answer may be no.
- You can limit wear and tear by renting just by the month or the whole season. (Long term renters are less likely to do damage)
- Rent to friends (or friends of friends) who may be more likely than strangers to treat your place with care. Use word-of-mouth advertising
- Consider hiring a rental manager. It takes time to handle inquiries and deal with potential renters your self; a rental manager will schedule renters and handle emergencies and maintenance. It may be worth the expense.
- To keep good renters coming back you may want to add amenities, such as hot tubs, televisions, gas grills, and a modern kitchen.
- You'll want a locked storage room or closet for your family's possessions.
- You'll need liability insurance. An umbrella policy will extend the liability limits (typically \$300,000) on your homeowners, auto and even boat policies for a reasonable sum. Insurance experts recommend a minimum of \$1 million in umbrella liability for people who own two homes.

**Are there any tax advantages to owning a 2<sup>nd</sup> home?** You may be able to deduct your loan interest and your real estate taxes for your 2<sup>nd</sup> home. Ask your tax advisor.

**What additional costs are involved in owning a second home?** Don't forget insurance! Home insurance is going to cost you more on a second home simply because you're not there as much. Here are a few tips to help trim those extra costs:

- Install a central alarm system that detects both fire and burglaries - A basic system costs approximately \$200 - \$400 to install, depending on the number of zones and sensors in your system, Expect to pay \$60 and up for service each year, but it can save you 20% off your insurance bill.
- Owning a home in a gated community can trim a further 10% off your bill.
- If you purchase a 2<sup>nd</sup> home in a rural community you'll need proof that the local fire department has access to a stream, lake or other water source. This can mean a break of 25% on your insurance costs. You usually won't get a discount for hiring a caretaker but having one will convince some insurance companies that you're worth the risk when otherwise they might down your business.
- If you rent out your 2<sup>nd</sup> home, you can expect to pay 20% over the cost of ordinary second-home insurance. Since you'll be there even less than most second-home owners, insurers feel your house is at even greater risk.
- Use the insurance agent that insures your first home, by insuring your second home with the same company you should be able to save 5% to 10%.

**In Conclusion:**

Whether there's a sunny mountain meadow, a rural hamlet or a ski resort in your daydreams, the perfect spot for a getaway or retirement home is any place that renews your spirit and lets you do the things you love. It is also an important financial investment that comes with ongoing costs. It pays to do your homework!

**Additional Information:**

H & R Block – the tax people

[http://www.hrblock.com/taxes/planning/life\\_events/second\\_home.html](http://www.hrblock.com/taxes/planning/life_events/second_home.html)

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