

Time to hunt for a vacation home



Second-home markets are hurting, making this a good opportunity to look (leisurely) for a deal.

At the risk of tipping my hand (real estate agents, stop reading now), I'm thinking of buying a second home. Like most of you, I own my primary residence, have no intention of moving soon and am locked into a fixed mortgage at a decent rate.

So rather than getting all worked up about how much my house may (temporarily) decline in value because of the subprime fiasco, I'm thinking about whether falling prices present a real opportunity.

A second home might be the ticket. Overall, median home prices fell 7.7% in 2007, according to the S&P/Case-Shiller index. Those in markets with a strong vacation-home component such as Las Vegas and Sarasota were down more than most.

The spot I'm looking at, Long Beach Island in New Jersey, saw double-digit percentage declines last year. And Celia Chen, senior economist with Moody's Economy.com, says the trend is worsening. In particular, she's on the lookout for greater weakness in Myrtle Beach and much of Florida.

So the market is soft. Good. And mortgage rates are down to 2004 levels. Even better. Is it time to buy? Maybe. But as I'm learning during my house hunting, there

are a lot more economic and psychological questions that come with a second home than with a primary one. Such as:
What does your market look like?

Granted, that's a question you'd ask even for a main home, but the fact is that markets for second homes showed some of the biggest rates of appreciation during the boom. Thus they still may have the furthest to fall now.

Chen worries about locales where average annual price growth reached or exceeded 15%, which it did in many beach towns on the Atlantic and Gulf coasts. If that's where you're looking, patience and - should you see something you love - a lowball bid are your strategies.
Why are you buying?

You can be looking for an investment, a weekend getaway or a place to retire. Yes, you'll often combine those factors, but it helps to identify the primary one, says Craig Venezia, author of "Buying a Second Home." That will help guide you to where and what to buy.

For example, if you're looking for your retirement home, you don't want a three-level house built into a hillside. You want something that will accommodate you as your mobility starts to decrease.

And if you plan to rent out the place when you're not using it, you need to look at the area's amenities. You might crave isolation, but if you're going to attract vacationers, your home has to be near a great beach or park as well as good shopping.

If this is going to be a retreat for you, says Venezia, don't buy until you're comfortable in an area. "Even if you go to a place and rent for a week or two, having a second home there is different," he says. "Rent several times during different seasons to really get a sense of it and the community."

Even then, ask yourself if you've truly got a buyer's mentality. After all, you're going to be spending much of your free time at this place. "If you like to hop around, you're probably a renter," says Barbara Corcoran, whose brokerage focuses on New York City, Palm Beach, Fla. and the Hamptons, an exclusive vacation area on Long Island.

"The person who likes to find a paradise just for themselves - somewhere they can settle in and be comfortable - is the buyer."
Do the numbers make sense?

For starters, do a rough cash-flow comparison, says Corcoran. Look at how much it's going to cost to pay off the mortgage and pay for taxes and maintenance vs. the cost of renting. If you're not planning on being in your house for at least seven to 10 years, says David Wyss, chief economist at Standard & Poor's, you won't recoup your investment. You're better off renting.

Also, don't make the mistake of overstating the tax advantages of ownership - something real estate agents are fond of doing. If you're paying the alternative minimum tax, the deduction for real estate taxes may not mean much. But if you're close to paying off your primary residence and not hitting the AMT, the deductions for taxes and mortgage interest could translate into real money. How strong are your credit score and personal balance sheet?

Yes, mortgage rates have come down. But second-home loans are harder to come by, and they're a half to one percentage point higher than for primary homes, according to Keith Gumbinger, vice president of HSH.com.

Why? Banks know you're more likely to walk away from a second home if you're in financial trouble, says Gumbinger. "And they're rather wary about that at the moment."

You'll need a credit score in the 700s and a decent income to qualify. In the days before lenders lost their minds, they expected to see no more than 36% of your income going to service your debts. That number climbed as high as 55%, but now it can't be higher than the low 40s.

My own bottom line? I've rented on Long Beach for just two years - and only in summer. I have more research to do. Financially, it will take me a long time to break even - and the market could get worse before it gets better.

Still, at heart I'm a buyer. I like to go to the same place again and again - and to have my clothes in the closet when I get there. So I'll do some off-season visiting and keep my eyes open. And my credit score high