Title:
Leveraging Property to Buy Property

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490

Summary:
Many lucky homeowners are using equity they gained during the recent bull market in real estate to purchase second homes.

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Article Body:
Many lucky homeowners are using equity they gained during the recent bull market in real estate to purchase second homes. Leveraging one property in order to acquire another can be a solid investment strategy, as you increase your investment portfolio one step at a time, and one house at a time, by using each new asset to help pay for another one.

Banks will normally scrutinize credit reports and income documentation more stringently when you borrow to buy a second home, because they want to make sure that both of your mortgage obligations can be paid each month without a problem. And they may require larger down payments and charge slightly higher loan fees or interest rates than they did when you bought your first home. Nevertheless, many homeowners find it easy to qualify for new loans, and this is especially true for those who maintain excellent credit ratings. With the potential to profit from your purchase through equity appreciation, the repayment of a second mortgage is often easier than it was for a first mortgage.

For those who plan to use the second home as an income-producing property, there are also available tax deductions. As a landlord, you can usually deduct such things as repairs, utilities, and even routine trips you take to visit your property and check on its upkeep. Many investors combine their use of the second home, so that it is rented or leased sometimes, and at other times it is used as a personal vacation home. When you aren’t making money by leasing it to others, you save money by not having to pay for hotel lodging at vacation time. A qualified tax planner can help you find all of the various tax advantages to spending your vacations in your own second home.

When applying to secure a loan for an income producing second home, it is a good idea to present your lender with a thorough business plan and any documentation that illustrates the practical income potential of the property. If the previous owner made a profit each year by renting it out as a holiday retreat in the summertime, your lender will be more inclined to have confidence in your own ability to manage the property for extra income. One good way to show income potential is to hire a professional appraiser, who can do a market analysis of your property by comparing it to similar income-producing properties in the same area.

Another popular way to finance a second home purchase is by using an equity line of credit based on the value of one’s first home. Banks typically charge more interest for these loans, but you are able to avoid many of the closing costs that are associated with originating a separate mortgage. And regardless of whether you apply for a mortgage or an equity loan, you may be eligible for tax deductions of interest payments and other related expenses.