

Follow your head as well as your heart when buying a 2nd home

Before buying that dream vacation home in the mountains or on the beach, look at the numbers. Your home away from home may provide a cozy retreat with a spectacular view, but does it make good financial sense to buy a second house?

According to CPA Barbara Steinmetz, a financial adviser and member of the International Association for Financial Planning, you first should consider several financial issues related to owning a vacation home before signing on the dotted line:

■ Are you mortgaging your future just to have a second home? Determine the amount you want to finance and how buying a second home might harm your retirement goals. Keep in mind that bank lending rates and down payments are usually higher for vacation homes, and deferment of gains available on a primary residence are not available on a second home.

■ Can you afford to maintain a second home? Maintenance costs for a second home can be as high — or higher — as those for a primary residence. Costs may include pool upkeep; telephone, cable and utilities — even when you're not there; gardening and alarm services; homeowner's association fees; and car maintenance. Also, know the current property taxes and check your insurance policy. Some insurance companies will consider a house vacant and charge higher rates or void coverage if you're not there a certain number of days.

■ Is the house in a "good" area?

The old real estate axiom, "Location, location, location," still rings true. Determine if the property is in a good growth-rate area, which could affect your home's future value. You can do this by driving around the area, checking on property values and talking to neighbors. Ask a Realtor about zoning and rezoning or development plans. You don't want a trailer park popping up below the deck of your new mountain cabin. Also, are there neighbors to watch your house while you're gone?

■ Will the second home be a vacation spot or will it eventually become a primary residence? Those who retire to their second home within two years after its purchase often can roll the gains from the sale of their primary residence to defer capital gains tax. If the house is a vacation get-away, be prepared to spend most of your vacations there. "Most people who purchase a vacation home for a short period to get there year after year because of the financial commitment, so they miss out on other vacation destinations," Steinmetz said. "If you plan to rent the house periodically throughout the year, keep in mind that the prime rental time might also be the time you want to spend at the house. Also, depending on the length of the rental, you could have tax advantages or consequences."

■ Should you set up a trust to hold the property?

Review your estate plan to see if you should set up a trust to hold the property. A trust can help your heirs avoid probate issues and minimize estate taxes," Steinmetz said. "If you don't have any estate plan, a professional financial adviser can help you draft one."

The International Association for Financial Planning represents more than 16,000 individuals and institutions that believe financial planning is the foundation for smart decision-making.

For information on the financial planning process, or to request the names of professional financial advisers in any area of the country, call toll free 888-806-PLAN (7626).

You also can request this information through IAFP's World Wide Web site at <http://www.iafp.org>



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