

MAKING CENTS

VACATION HOME ECONOMICS

-John P. Napolitano, CFP®, CPA, PFS, MST, RLP®



Now that the first weekend of the summer of 2010 is in full swing, many vacationers are perusing the real estate pages for their favorite vacation destination and again dreaming about owning a vacation home. From my perspective, the dreaming is healthy. But before you act on this vacation home dream, make sure that you factor in all of the relevant information.

The first order of business is a thorough financial analysis of owning versus renting. When forecasting the costs of ownership, there are two major considerations. First is all the money you'd need to acquire the home. You'll need cash for a down payment, closing costs, furniture and travel to and from your new home.

The second set of considerations is the costs of maintenance and upkeep. Also be extra careful if renting out the home is part of your plan.

After the financial analysis, many will conclude that the house will need to appreciate significantly to overcome all the ownership costs. There is no doubt that your purchase price today will look pretty low compared to what similar homes sold for a few years back – but that does not mean that your price will quickly recover to the values reported back then.

You should look at your financial and retirement plans, and evaluate whether ownership of this home will significantly change any of these plans. Don't wing it. Forecast your future income and expenses using estimates that make sense today and then consider the consequences on the other areas of your financial life. If the decision is a close one, then you need to prioritize. If you are willing to postpone retirement, drive an older car or trim back your dinners out

to afford the second home, go for it. Just make sure you are insured for death, disability or other perils that you can not control.

Buying low is appealing, as everyone loves a bargain. But the low purchase price doesn't matter much if you lose your job, can't rent the place, or have under budgeted for main-

tenance and repairs.

I was sitting on the deck of a rented vacation home last week, and when I saw my neighbors out mowing their second lawn or sanding their garage door, I just kicked up my feet or took a stroll to the beach. Priceless.

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