

WORTH

Home Sweet Second Home

A vacation getaway can offer recreational, as well as financial benefits

Story by S. Kay Bell

TEXAS' HOT SUMMERS REGULARLY drive many Austin residents to the Gulf Coast for cooling waters and sea breezes. There are some snow bunnies in Central Texas, too. Even before the region's relatively mild winters roll in, these folks are already schussing down the slopes in neighboring New Mexico or Colorado. Regardless of where your seasonal travel takes you, you're probably a lodger. But what if that beach house or mountain cabin was yours?

The second-home market is booming thanks to, fittingly, baby boomers. A 2006 study by the National Association of Realtors found that middle-aged, middle-income households are the driving force behind multiple property ownership. Even with the recent national housing downturn, realty experts see this group providing a solid second-home demand for at least the next decade.

Many multiple-property owners see another home as an investment to replace or supplement stocks. Others simply want a place where the family, nuclear as well as extended, can regularly get together. But in addition to helping folks reconnect with relatives or diversify portfolios, a second home could provide some extra income and nice tax breaks.

What's It For?

The financial perks of a second home depend in large part on how it's used. That usage question is also the first thing you need ask yourself when

considering a purchase, said Alice Donahue, a real estate broker who's been operating Alice Donahue Real Estate (www.texasgulfcoastonline.com) out of its South Padre Island office for more than a decade.

"You need to decide if you want to rent it or use the home yourself," said Donahue, a University of Texas alumna. Owning an investment property that can be rented has had a lot of appeal in recent years, as most Texas coastal properties have seen nice price appreciation. Even when it is part of the rental pool, many owners also use the property themselves when the market is slow, said Donahue.

Location, Location, Location

Some coastal developments are better rental candidates than others, which can affect a property's price. That's why thoroughly exploring just where you want your second home is so important.

"Most people already know what area they're interested in," said Donahue. For Texas buyers, that's usually determined by ease of access. But the amenities you want also are a factor. If you want solitude, you'll likely look to a place like Point Bolivar in Galveston Bay. Some newer developments in this area, Donahue noted, are accessible (at least for now) only by ferry. If shopping and dining are important to you, then locales closer to major cities will beckon.

A favorite coastal destination
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for Austinites, she said, is Port O'Connor off Matagorda Bay. Houstonians tend to head toward Galveston. Out-of-state property shoppers just want any part of the Lone Star State they can get, buying from Crystal Beach to Port Isabel and all the places between.

Closer to Home

Another favorite second-home site for many Austin residents is Central Texas. In fact, Austin itself is becoming a destination for folks from across the state and country looking to add to their property holdings, said Cyndi Cummings, a real estate consultant with Capital City Sotheby's International Realty in Austin (www.laketravisliving.com).

"Austin is an excellent second-home market," said Cummings. The attributes that second-home shoppers typically seek are water, golf and sunshine, according to Cummings. Central Texas has plenty of all that, plus proximity to Austin's special cultural offerings.

"They also might be looking at a similar location; it might be in Florida, it might be in Arizona," said Cummings. "But when we have people come and consider Austin as a second home, they're thinking about the lifestyle. It has all the qualities of life they want."

And Central Texas' typically mild winters are downright warm when you're talking to Midwesterners. In fact, second-home seekers are coming to the area year-round, said Cummings: buyers from the north "who can't stand another winter" and buyers who enjoy the area's summer lake and golf possibilities.

"Some are flying in from far away," said Cummings. "And then we have buyers from Dallas, Houston and El Paso who think that Austin is Mec-

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ca, that it's so beautiful." Full-time residents appreciate the area, too. "One interesting thing is that we actually have people in Austin who buy lake houses in Spicewood or Marble Falls," she said. The second place might be just 30 or 45 minutes away, but it lets the owners get into an away-from-home mindset without being very far from home.

Cummings' experience with Austin second homes underscores the national Realtor study. "A lot of people are in the boomer age, thinking about where they want to retire," she said. "Their second home might not necessarily be the last, perfect home, but is a good way to check out an area."

Picking, and Paying, Your Price

In doing that potential retirement reconnaissance, you need to decide whether you want a house, a condo or land that you'll build on when you retire. That choice will typically be made in conjunction with the final second-home factor that must be considered: your price range.

As in all real estate sectors, second-property prices run the gamut. And there are just as many ways to pay for them.

As property owners have cashed-out of high-priced areas such as California and Florida, Donahue has seen an increase in cash deals. Cummings, too, reported her share of second-home buyers who pay cash. "They don't want to have a lot of obliga-

tions," Cummings said. "They just want to pay their utilities and taxes and not have to worry about the remainder."

Both agents also deal in property swaps, known as 1031 exchanges, for buyers of investment real estates.

If you don't already have a second property to trade or that much free money, you'll need a loan. Some buyers might be able to tap equity in their primary residence to come up with cash. If that's not an option, check with lenders for the various options; loan requirements and terms likely will differ depending upon your second property plans (i.e., personal use vs. investment/rental income).

Second-Home Tax Consequences

Whether your second home is for your own enjoyment, a pure investment property or a combination will also affect your tax calculations.

"If you rent your vacation home for no more than 14 days during the year, the tax law has a rule that sounds too good to be true, but it is," said Bob D. Scharin, RIA Senior Tax Analyst with Thomson Tax & Accounting in New York City. "The rent you receive in this situation is tax-free, and you are not even required to report it on your tax return." So you lease your lakeside property to music fans coming in for one of Austin's many festivals and pocket the money with no questions asked by Uncle Sam.

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And since the second home is primarily for personal use, you can still deduct the property's mortgage interest and real estate taxes on your personal income tax return.

You also can deduct loan interest and property taxes on a second home when the property is rented most of the time, but in these cases the

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tax rules get more complicated. In addition to the mortgage interest and property taxes, other landlord-related deductions are allowed, such as rental agent fees, cleaning and maintenance costs, insurance premiums, utilities and depreciation.

Either way, multiple-property owners should consult a tax professional to make sure IRS rules are followed and maximized to the homeowner's benefit. ★

Second-Home Alternatives

Not quite ready for second-home ownership? Consider one of these alternatives. Keep in mind though, that while you won't have many of the responsibilities associated with owning another property, these options aren't necessarily cheap.

Timeshare: Popularized in the 1960s, you buy a share in a property and then have access to it for a specific time, usually a week each year. Timeshares have been sold for cruises, recreational vehicles, even campgrounds, but are most popular as nominal ownership in a condominium apartment. Prices nationally run between \$10,000 and \$50,000, and management (and other) fees also are collected.

Fractional residence: A fractional residence operates much like a time share, but in this case you get three-to-four weeks at the property. To go along with the longer stays are higher purchase prices. Ragatz Associates in Eugene, OR, which provides market research to the resort industry, reports fractional prices from \$24,000-plus to more than \$70,000 a week, not counting additional operational fees.

Residence clubs: Also called destination clubs, these arrangements are the luxury versions of fractional ownerships. Membership allows you to vacation in lavish, club-owned homes throughout the world. One such club, Exclusive Resorts, charges \$425,000 for a 45-day membership, along with \$29,900 in annual dues. That will get you 45 days at any of the club's 345 private homes, which typically are 3,000-to-4,000 square feet with three-to-four bedrooms and offer high-end amenities and concierge services.