



### 1. NOW IS A GOOD TIME TO POUNCE

In many second-home hot spots, prices are still close to their five-year lows. According to Fiserv, single-home prices in Napa, Calif., for example, are down 47% from their 2006 peak; the average house in Ocean City, N.J., costs 24% less than it did in 2006. And though a few hard-hit markets like Las Vegas, Tucson, and Miami could fall a bit further, most economists believe the biggest declines are behind us.

Meanwhile, sales in places such as Myrtle Beach, S.C., and Palm Beach saw double-digit increases last year. "Now prices are starting to move up," says Myrtle Beach broker Rod Smith.

# 5

THINGS YOU NEED TO KNOW ABOUT...

## Buying a Vacation Home

By SARAH MAX

### 2. A HOME IS A BETTER DEAL IF IT'S RENTABLE

You may think you'll keep the retreat all to yourself, but it's still smart to shop as if you're going to rent the place out. That's because a home's rental potential can affect its resale value, says Fredericksburg, Texas, agent Catherine Jeffrey.

Before you bid on a house, make sure the homeowners association or township allows short-term rentals (many do not). And keep in mind that renters prefer homes with at least one bathroom for every bedroom, says Jeffrey.

### 3. DON'T COUNT ON RENTAL INCOME TO PAY ALL YOUR BILLS

The typical property rents out just 17 weeks a year, says Christine Karpinski of vacation-rental site HomeAway.com. Plus, you'll need to pay for cleaning, maintenance, insurance, and maybe management fees (at least 15% of income).

To get a handle on a property's income potential, ask a management company for a history of rental dates and rates for homes comparable to the one you're considering. If your monthly loan payment is less than or equal to one peak week of rent, you're likely to break even, says Karpinski.



### 4. YOUR LOAN RATE DEPENDS ON HOW YOU USE THE HOUSE

Lenders have raised standards across the board, but they're giving extra scrutiny to vacation homes. Use the property primarily as a second home and you'll pay about the same mortgage rate as you would on a primary residence, says HSH Associates vice president Keith Gumbinger. If you need rental income to qualify for the loan, however, the house is treated as investment property—so you'll have to fork over as much as 25% for the down payment and pay up to one percentage point more in interest.

### 5. TAX BENEFITS CAN BE SWEET

Rent the house out for two weeks or less and you won't have to report a cent of income to the IRS—and you can still deduct property taxes and mortgage interest.

Stay there for less than two weeks or 10% of rental days, whichever is greater, and you can deduct operating costs—everything from cleaning fees and maintenance to linens and repairs—in addition to interest and property tax. Use *and* rent a lot? You'll have to allocate the write-offs between personal and rental use, which gets tricky, says Rick Shapiro, a CPA in West Hartford, Conn. So talk to your tax guy before you buy. ■