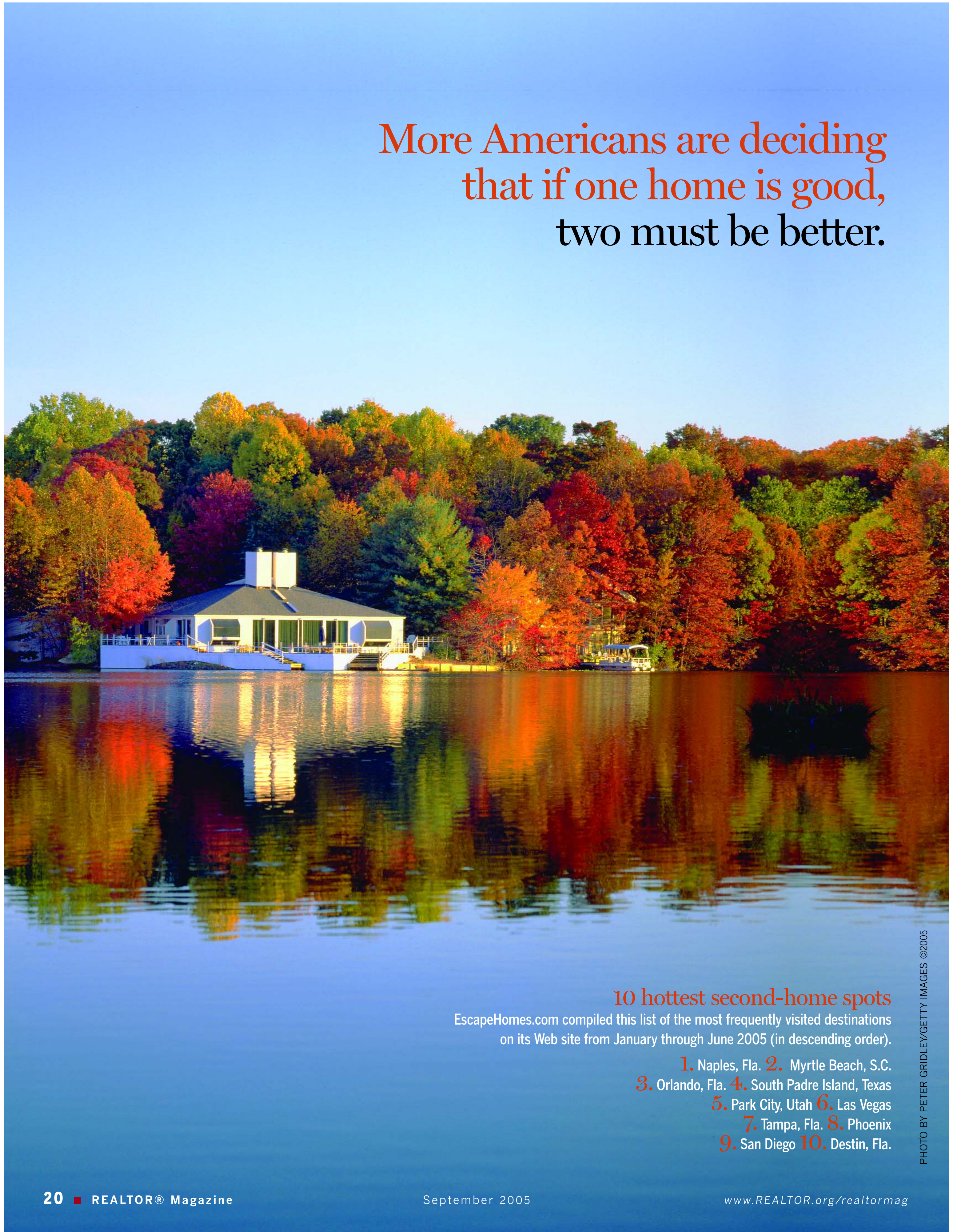
## More Americans are deciding that if one home is good, two must be better.



### 10 hottest second-home spots

EscapeHomes.com compiled this list of the most frequently visited destinations on its Web site from January through June 2005 (in descending order).

1. Naples, Fla. 2. Myrtle Beach, S.C. 3. Orlando, Fla. 4. South Padre Island, Texas 5. Park City, Utah 6. Las Vegas 7. Tampa, Fla. 8. Phoenix 9. San Diego 10. Destin, Fla.

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BY BARBARA BALLINGER

# Ready for seconds

Think of it as the supersized version of the American dream. One house satisfies the craving for both cocooning and a great investment return. Two—or three—are just that much more appetizing. It's no wonder second homes have seen such a surge in popularity and price in the last few years.

A confluence of factors is spurring second-home sales. Many buyers have disposable funds from inheritances and their own successful businesses, and they prefer to invest in real estate over the volatile stock market. Continued low interest rates and an aging boomer population ready to spend more time in leisure activities are also putting second homes near the top of many wish lists.

The trend has become so pervasive that in 2004 second homes represented 35 percent of all existing single-family, condo, and new-home sales, an uptick of 16 percent from the prior year, according to the *2005 National Association of Realtors® Profile of Second-Home Buyers,* which focused on purchases in the 12-month period between August 2003 and July 2004.

How do you identify prospects for second-home sales or referrals? The tough part is that second-home buyers don't fit neatly into one category. Some want a vacation home; others are looking primarily for investment property.

Vacation-home buyers are a median age of 55, 16 years older than the typical 39-year-old primary buyer, according to NAR data. Most want a home within 200 miles of their primary residence. Take Susan Fredman, 55, who runs a successful interior design business with three Chicago-area offices. Fredman likes to de-stress each weekend by driving 100 miles from her downtown condo to a single-family house in Harbert, Mich., a hop, skip, and jump from Lake Michigan.

Those buying second homes for investment purposes generally are younger and more affluent than those buying vacation homes—47 years old with a median annual household income of $85,700, compared with 55 and $71,000 for vacation-home buyers. Investors also tend to buy closer to their primary residence, a median distance of 18 miles away, according to the NAR survey. Linda and Jim Balducci, for instance, found a fully furnished condo three years ago "around the corner from us" in La Jolla, Calif., says Linda, 56, a fitness instructor. They liked the idea of an investment that would appreciate and generate revenue. In the last five years, overall appreciation in their area has soared 120 percent, says salesperson Jim Sullivan of Prudential California Realty in La Jolla. In fact, the Balduccis bought their condo for $860,000 and sold it two years later for $1.07 million.

Motives for buying a second home are complex and sometimes difficult to target. Who better to help clarify what second-home buyers want than the buyers themselves? *See page 22*

### 5 questions to ask second-home buyers

Before helping customers take the plunge into second-home ownership, ask these questions, suggests David Hehman, CEO of EscapeHomes.com, a San Francisco-based referral service for second-home buyers.

1. How far are you willing to travel?
2. How much are you willing to spend?
3. Why are you buying (investment, recreation, retirement)?
4. What amenities are you looking for (water, mountains, golf courses, city nightlife)?
5. How often will you use it (weekends, summers, holidays) and with whom (a partner, children, grandchildren, friends)?

To order the *2005 NAR Profile of Second-Home Buyers* (item #186-55-05), *How a Second Home Can Be Your Best Investment* (item #141-134), and *Are You Missing the Real Estate Boom?* (item #141-90), visit REALTOR.org/store.

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## Embracing the Outdoors

**Who: Thomas and Alison McFadden**
**What:** Two-bedroom condo on a lake in Dillon, Colo.
**From:** Littleton, Colo., a Denver suburb, 71 miles away
**Why:** Ski, bike, hike

Although primary homeowners typically seek curb appeal, a good school system, and proximity to a job, many vacation-home buyers focus on amenities, such as sports and recreation opportunities. Thomas and Alison McFadden enjoy year-round activities from their Lake Dillon condo, which they bought three years ago after constantly staying with friends, Thomas says.

With help from Voyd J. (Butch) Elich II, GRI, of RE/MAX Properties of the Summit in Frisco, Colo., they found a two-bedroom condo, within 10 miles of four premier ski resorts—Arapahoe Basin, Breckenridge, Copper Mountain, and Keystone.

"We were planning a major remodeling of our Littleton home but decided instead to use the funds to buy a condo, which cost $239,000," says Thomas, director of global pricing & economics with Key Equipment Finance in Denver. His wife works as a purchasing agent for a company that buys equipment for hotels.

The couple, both 47, and their son Daniel, 10 years old, are avid skiers. Daniel skis on a team and is trying to qualify for the Junior Olympics. "It's something wonderful he'll be able to do his entire life," says Thomas. Their lakefront home also allows them to boat and fish, mountain bike, hike, and attend area music and arts festivals in the summer. "We'd love to live here year-round, if the job situation permitted," Thomas says.

## Investing for Return

**Who: Christopher Callas**
**What:** New single-family detached houses in La Quinta, Calif., and Naples, Fla.
**From:** Redondo Beach, Calif., 150 and 2,569 miles away, respectively
**Why:** Build a large portfolio of appreciating investment properties

In today's booming market, the promise of appreciation is the most powerful lure for prospective second-home buyers. In the NAR survey, vacation homes accounted for 36 percent of second-home sales, or about 1 million units, whereas investment properties represented 64 percent of sales, or 1.8 million units.

Christopher Callas, 35, who works as an import director in Los Angeles and lives in a three-bedroom townhouse in Redondo Beach, has bought 13 additional homes, all single-family, over the last two-and-a-half years. A friend who took a class at a community college on investment properties turned him on to the idea. He started in Naples, Fla., where his parents live. He now owns 12 houses there and considers it a great place to invest because the area's economic and construction boom is just beginning, he says. "What's happening there already happened in California," he says.

This past February, Callas also bought an 1,800-square-foot single-family house for $350,000 in La Quinta, Calif. It's not too far from his primary home and may one day become his main residence, he says.

All 13 properties have certain commonalities to attract quality tenants: new single-family construction in a predominantly primary-home community, square footage

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## Maximize a second home's investment value

Nearly two-thirds of second homes bought during 2004 were purchased for investment, according to the *2005 National Association of Realtors® Profile of Second-Home Buyers.* The buyers of these 1.8 million units will value your skills at helping them get the most from their purchase.

### Buy it right

A major factor in achieving a good return on a second home is buying smart, says James Boykin, retired head of the Real Estate and Land Development program at Virginia Commonwealth University and author of the forthcoming *Investing in a Vacation Home for Pleasure and Profit* (Thomson/South-Western, 2006).

**Select a prime location.** Look for a property that's readily accessible by car and no more than a half day's drive, or a short plane flight, from a large population center, says Boykin. Resort-like amenities—whether golf, tennis, water access, or reliable snow for skiing—also help ensure a property's appeal to a wider audience. Easy walking distance to these amenities (three to seven minutes) adds value. In the end, says Boykin, "your best bet as an investor is to buy where people want to be. In a less desirable market, there's no one to bail you out."

**Choose an area with growing demand.** Analyze migration trends, the current and potential supply of vacation homes, past and projected price appreciation, and home sales growth to assess the area's prospects for future appreciation, advises NAR Chief Economist David Lereah in his book, *Are You Missing the Real Estate Boom?* (a Currency book from Doubleday, 2005).

**Know what you're buying.** Check lot lines against the property survey, and investigate water features upstream and downstream to be sure they aren't polluted or obstructed. Watch for currents that make swimming and navigation difficult. And try to safeguard that valuable view with proximity to park land or conservation easements that restrict building, suggests Boykin.

**Don't assume values will always go up.** "You have to think about where the market is going and what your hold strategy is. You can't just buy at any price and operate on the theory that an even bigger fool will come and buy it from you,"

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between 1,400 and 1,600, three bedrooms, two-and-a-half baths, a two-car garage, and a nice yard but no pool. "That's too big a liability," Callas says.

His La Quinta real estate salesperson, Judy Zeigler, CRB, CRS®, with Prudential California Realty in Palm Desert, Calif., says that since he closed, the home has appreciated 15 percent.

## Escaping from Urban Life

**Who:** John and Mary Anne Callahan
**What:** Three-bedroom cottage on a bay in Normandy Beach, N.J.
**From:** Chatham, N.J., 75 miles away
**Why:** De-stress from hectic Wall Street job and suburban lifestyle

Despite owning a beautiful home in a Northern New Jersey suburb, the Callahans and their grown children still can't wait to get to their small knotty-pine bungalow on the Jersey Shore between Memorial Day and Labor Day. Like the Callahans, more than 53 percent of vacation-home buyers reside in a suburb.

"We love the lack of structure from our regimented other lives and hearing the water when we're in our living room," says Mary Anne, 51, who spends the entire summer there. She gardens, walks the beach or boardwalk, and spends time with beach friends. Her two younger children, 22 and 19, get summer jobs at the shore; her older son, 25, flies in from Los Angeles as often as he can. John, 53, who has a high-pressure job on Wall Street, comes on weekends to surf, bicycle, and fall asleep on the front porch, Mary Anne says.

The Callahans started their tradition of summers at the shore long ago. John and Mary Anne vacationed there as kids. They bought the bungalow 12 years ago, after telling broker-owner Lee Childers of Childers Sotheby's International Realty in Normandy Beach that they wanted a home facing the bay because its water is warmer than the ocean, says Mary Anne.

The home has been a sound investment. In nearby Mantoloking, prices have increased 20 percent in the past year alone, according to Childers. The Callahans have gradually spruced up the small three-bedroom by whitewashing pine cabinets and adding air-conditioning. But they've deliberately kept it simple, avoiding the trend toward megamillion-dollar homes in Mantoloking. For them, Normandy Beach is more about family memories than financial returns. "As soon as the last day of school rolled around, I packed everything up, started the motor, and waited for the kids to come home," recalls Mary Anne, laughing. "Anybody who didn't make it in time was told, 'See you in September.'"

## Inching Toward Retirement

**Who:** Gary and Linda Lyell
**What:** Three-bedroom brick ranch in Diamondhead, Miss.
**From:** Kent, Ohio, 1,009 miles away
**Why:** Split time, have for retirement

Although the most popular reason for buying a vacation house last year was for use as a personal or family retreat, a close second in the NAR survey was for use as a vacation residence that would become a retirement home. Buyers in this category often divide their time between their primary and preretirement homes, thus earning the moniker "splitters."

The Lyells are among that group. The Ohio couple has made Diamondhead, Miss., on the Gulf Coast near Biloxi, their retirement destination.

They discovered the area with the help of real estate practitioner Frederick F. Hunt, 70. After traveling cross-country in an RV in search of a retirement abode, Hunt settled in Gautier and earned his real estate license so that he could literally sell others on his enthusiasm for the place. The former Aurora, Ohio, resident is with Wayne Martin & Associates. He touts the area's long fall and spring seasons, excellent big game fishing, active gaming industry, strong economy, and affordable housing, which averages $140,000.

The Lyells visited Hunt this past Memorial Day, fell in love with the area's Southern hospitality, golf courses, and beaches, and made a downpayment on a new $175,000 three-bedroom, two-bathroom brick ranch that will be completed by January 2006. Like the Lyells, more than half of vacation-home buyers spend between $125,000 and $199,999, NAR data shows.

Both Lyells still work—Gary, 55, owns an automation equipment company in Kent, Ohio, and Linda, 52, is general manager of a prominent regional Web site. They plan to split their time between Ohio and Mississippi for the next three to five years. Then, they'll make the Gulf Coast their principal home. "We're looking forward to the sunny South after the harsh climate of Ohio," says Gary.

## Heading Back to the City

**Who:** Jennifer and Tom Rzepecki
**What:** One-bedroom condo in Chicago
**From:** St. Charles, Ill., 38 miles away
**Why:** Enjoy urban life

For years Jennifer and Tom Rzepecki lived in a condo in Chicago's Lakeview neighborhood. They planned to stay, even after they had their first son. But with a second child on the way, the couple realized it would be easier to raise a family in the suburbs; they moved to a four-bedroom, three-bathroom home in one of the city's far west suburbs.

With savings from her prior work as an American Airlines flight attendant and his work as a pilot for Southwest Airlines, the couple had planned to buy a vacation home in Wisconsin. But their second child developed medical issues that made travel difficult, so they switched to the idea of a condo in Chicago, says Jennifer, 42.

They now come in many weekends and stay at the one-bedroom condo they purchased for $274,000 a year ago. The boys, now 5 and 7, love taking the train rather than driving, which makes the commute more of a vacation, Jennifer says. She and her husband also use the condo as an adult retreat and way to remain connected with city friends. Betsy Joyce of Rubloff in Chicago, who sold the couple their in-town second home, advises urban second-home owners to select a building with good services and maintenance so it will be as close to turnkey as possible. "You want to be able to walk in and walk out," she says.

For the Rzepeckis, buying a city condo was a way to reconnect with a place they knew and loved. For others a second home is a chance to try something completely new. Still others are looking to build a retirement nest egg. Second homes fulfill all these goals, which is sure to make them an attractive niche for a growing number of real estate practitioners in the years to come. RM

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notes Scott Snyder, broker-owner of Raleigh Investment Real Estate in Raleigh, N.C. Snyder says some of his clients who once owned at the beach are now looking at mountain or lakefront properties as "the next affordable frontier." Others are opting to buy land, a good strategy in more speculative markets, says Snyder.

### Rent it right

The majority of second-home investment buyers—57 percent according to the NAR survey—rent out their properties at least six months of the year. "Renting a home for even a few weeks during the high season here, where low-end rentals go for $1,000 a week, can cover homeowners' dues and property taxes for the year, plus a part of the mortgage," says Judy Zeigler, CRB, CRS®, of Prudential California Realty, who sells second homes in Palm Desert, Calif., to "snowbirds" from all over the world and to weekenders from Los Angeles, Orange County, and San Diego.

**Buy with renting in mind.** "Look at the house as something to be used by someone else, not by the buyers themselves," says John Tuccillo, president of JTA Inc. and coauthor with Tom Kelly of *How a Second Home Can be Your Best Investment* (The McGraw-Hill Companies Inc., 2004). Choose interior features and furnishings with durability in mind.

**Determine a target rental audience.** Based on the area's available activities, profile the most likely renters. Then make improvements to the home accordingly, suggests Tuccillo. Families will want play equipment. For a retiree renter, consider grab bars in baths.

**Make management easy.** Find a reliable home-warranty company that'll take care of interior mechanical problems when a tenant calls. Combining this service with tenants who send the rent checks directly to the owner can help save on management fees, which can be up to 10 percent of each month's rent, says Karen Sepko, a sales associate with Prudential Gardner, REALTORS®, in Metairie, La. Sepko suggests this strategy to condo investors, who come from all over the country through her Web site, *www.crescentcitycondos.com*. She acts as the liaison with the warranty company for free but charges owners 60 percent of the first month's rent to lease the unit.

**Factor in taxes.** Renting a home for more than 14 days a year allows owners to deduct expenses such as taxes, repairs, and depreciation for the time the property was rented. However, owners will owe taxes on rental income, and mortgage interest may not be fully deductible, says Brian Stevens, CPA, a partner in Summit Accommodators in Bend, Ore. Different tax treatments apply to the periods of personal use and rental. Advise clients to check with an accountant if they intend to rent their properties.

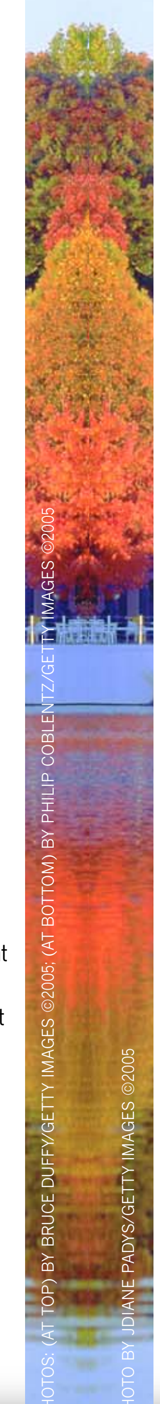
### Sell it right

High-earning baby boomers should keep the second-home market strong for at least another decade, predicts Boykin. Echo boomers, whose telecommuting lifestyles will allow for more remote work, will also help to buoy the market by spending more time in vacation homes. As a result, says Boykin, "price appreciation may drop to single instead of double digits, but properties in moderate climates with strong amenities will continue to perform well." If your client is ready to sell, keep these tips in mind.

**Consider a 1031 exchange.** An exchange is a great way to take the tax bite out of high property appreciation. Since only investment properties are eligible for 1031 exchanges, second-home owners must be careful how they use the home, especially the last year before an exchange, says Stevens. The most conservative way to ensure that a second home will be considered an investment for exchange purposes by the Internal Revenue Service is to personally use the home for fewer than 15 days a year and make an effort to rent the home the remainder of the time. Second-home owners may also be able to use the property more than 14 days a year as long as that use is for a business purpose, says Stevens. Business purposes can include visiting the area to look at other potential property investments, making or supervising repairs to the home, or using it as a base for a company training session or retreat.

**Convert the home to a primary residence.** When a 1031 exchange isn't feasible, sellers can consider making their second home their primary home for the two years before they sell it. Even if a property was previously used as a rental, owners can then qualify for the capital-gains exclusion ($250,000 for individuals, $500,000 for married couples). As of Oct. 5, 2004, owners who acquired their second home through a 1031 exchange need to own it for five years and live in it for two of those years to receive the deduction, notes Stevens.

*—Mariwyn Evans*



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