

# Does It Make Sense to Buy a Second Home?

*It may sound sweeter than it actually is.*

By Geoff Williams

Owning a second home may sound like something only the wildly rich do, but that isn't always so. Sometimes people buy a new house when they haven't had success selling the first. Other homeowners might like the idea of buying a second home to fix up and sell at a fat profit – or to rent out.

For the right individual, two homes may be a great plan. But for the wrong homeowner, plenty can go awry. If you're thinking of getting a second mortgage for practical or profitable reasons, now is a good time to have second thoughts, because...

**1. You need to have plenty of money.** You don't have to belong to the 1 percent to pull this off, but for a bank to allow you to purchase a second home without plans to sell the first, you can't be just getting by, hoping a second house will fix your financial picture.

While every lender is different, as a general rule, you'll need to pay a higher down payment for a second home than you would a first, often 30 percent or more.

**2. You shouldn't have too much debt.** You're taking on more debt when you buy a second home – something lenders take into account. In fact, your debt-to-income ratio is usually the primary issue for lenders.

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*--Kurt Fillmore*

Your debt – including mortgages, credit cards, car and student loans – shouldn't exceed 36 to 42 percent.

**3. You have to spend money to make money.** It isn't just that you'll need a hefty down payment. Your monthly mortgage may well be higher because investors are viewed by banks as riskier customers, often subject to higher interest rates. To avoid financing issues, many investors use cash financing or existing lines of credit to purchase investments.

You are also going to be maintaining two homes. You thought it was hard to make sure the bushes were trimmed for one house? Now, you get to double the fun. It's more than just taxes and insurance. Most people grossly underestimate the carrying costs of the investment in real estate.

**4. The buyers and sellers may not come.** Just because you have grand



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plans of renting out or selling a second home doesn't mean things will work out that way. Every day that an investment property sits empty means a loss in profitability to an investor.

“Personally, I don't recommend that my clients rely on sources of income that could suddenly stop. You have to be comfortable that if the property is not rented out, you'll still be on solid footing,” says Kurt Fillmore, president of Wealth Trac Financial Group in Bingham Farms, Michigan. (And back to the having-plenty-of-money point – Fillmore recommends having six months of emergency funds to cover the mortgages of both houses, in case

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something goes wrong.

### **5. All of this is harder than it**

**looks.** Even if you sell or rent out a second home fairly quickly, you could have plenty go wrong later.

Brian Seibert has been renting properties for 20 years. “From my own experience as a landlord, I’ve learned that it’s critical to prepare for the worst,” he says. “I’ve had tenants spray paint the insides of houses, start fires indoors and attempt to flush tennis balls down the toilet. It happens with both high-priced and low-priced properties. You have to be financially ready in case the damage goes far beyond the safety deposit.”

He also observes: “Municipalities that react slowly to delinquent renters – such as Wayne County here in Michigan – can cause significant headaches for landlords. Not only are you likely to lose at least three months of rent income before any changes can begin to take place,

these renters often don’t do any favors in the upkeep of the house itself.”

Fillmore even goes so far as to discourage folks who are retiring or approaching retirement from acquiring a second home – especially if they’re going to rent it out – simply because of the headaches tenants can bring.

“Real estate, even on a small scale, should be seen as another job or career,” Fillmore advises. “While it may be the right fit for some, it’s not for everyone.”

It gets even harder if you’re trying to flip houses and are solely thinking of them as investments. For instance, it is important to understand the tax implications of short-term gains and non-primary-residence sales.

Michael Rosenberg, a financial advisor in Livingston, New Jersey, agrees that investing in real estate can get really complicated.

“I only would recommend a second home purchase if you are going to take advantage of the \$500,000 for

married couples and \$250,000 for individuals deduction that you can make without incurring capital gains tax – as long as it was your primary residence for two years before the sale,” he says.

Beyond that, Rosenberg says he wouldn’t advise buying a second house unless you are a real estate developer: “I would warn the average person not to get involved unless they have a unique expertise,” he says.

### ***About Wealth Trac***

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*Wealth Trac Financial Group is a full-service retirement planning firm based in Bingham Farms, Mich., serving clients throughout the Detroit area. Led by principals Josh Alpert and Kurt Fillmore, the team at Wealth Trac uses a wide variety of strategies to create truly customized and individualized plans for each of their clients, ensuring financial security in retirement. To learn more, visit [WealthTracFinancial.com](http://WealthTracFinancial.com).*