

Vacation Homes: Heaven Or Retirement Hell?

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The part of Florida where I live is lovely year round, but during the summer it is oppressively hot and humid. If it weren't for swimming pools and our beaches, we'd melt. It is that heat that added to my joy a few July 4ths ago as I sat in a rocking chair on the front porch of our family's cottage in Montreat, North Carolina. It was 55 degrees in July!

Montreat means "mountain retreat" and the house has been a sanctuary in many ways for our family over the last few decades. It is one of those places where you can leave your doors unlocked and children can go play in the park without any concern at all. Billy Graham lived up the road from us. My wife spent many a summer up there as a kid and so did our children.

I understand the allure of a vacation home. I've lived it and loved it. It can be a slice of heaven.

Vacation homes can also be a living hell. I have seen many clients over the years watch their slice of heaven become a burden to their finances and a drain on their free time. This shift can happen fast. In some cases, usually after an impulsive purchase, it happens almost instantly.

Having a good experience with a vacation home starts before a property is identified. Good experiences come from an acknowledgement of why one wants a vacation home and applying some rational thinking to this emotion-driven decision.

No one "needs" a vacation home, but there are many reasons for wanting a second home. The three I have encountered most often are locking in a place for a future retirement, the joy of sharing with family and friends, and easier vacations. These sound good initially, but can fail to hold up to greater consideration.

Several clients have tried to stake a claim to a property for their future retirement but found that they were drawn to other locations as they neared retirement age. One couple was prevented from leaving our area due to a health issue that kept them from wanting to find new doctors and care facilities. More than a few others simply changed their mind and realized that what they wanted when they actually retired had changed. Another found that her child and grandchildren would be moving away from the area in which her prospective retirement home was located.

Ah. Those precious grandkids. This is probably the most common vision among retirees for a second home. "I could see our grandkids playing on this porch," says a client during a rental stay in a beautiful locale. Next thing they know they are shopping for a house.

It is a beautiful picture and, as I mentioned, our family benefitted from being able to use the Montreat cottage over the years. I get it. For a lot of families, however, spending time at a vacation home is very challenging.

My wife chose to leave the workforce to be a stay-at-home mom. Spending many weeks up in Montreat was easily done for her. I didn't have that option. I got a week or two here and there. Most families these days do not have a lot of free time. Even if one parent stays at home, the activities the kids are involved in allow for just a few weeks of vacation time every working year.

Yes, it would be great for everyone to gather at the second home but how long can one's children and grandchildren really stay? Is that where they want to use their precious vacation time every year?

How one spends their vacation can drive the desire to buy a second home. Once a client has visited the same location a few times, it becomes familiar and can feel like a second home. They obviously love the area or they wouldn't go back. They start to think, "It would be easier to not have to find a rental, live out of a suitcase or haul gear up here every year if we had a place of our own."

That's true but it is an incomplete evaluation. When you buy a vacation home, you get rid of some inconveniences but take on new ones like maintenance, upkeep, taxes, utilities and all the other elements of the joys of homeownership. If you don't have the time, temperament or ability to attend to these things from a distance, you must pay others to take care of these things. That sounds simple, but for me here in Florida it has not been easy to supervise maintenance and other projects at the Montreat house.

For many people, being the renter is far easier than being the owner. Renters only pay for what they use, and the rest of the year they spend no time, energy or money on the property.

A common solution to these costs is to rent the property. After all, if the client has rented a place in the area several times, it is obviously possible to get some rental income to offset costs. Local realtors will likely tell the client it is easy, and will relay high occupancy rates and average weekly rental rates during peak season. Clients multiply that average rent by some number and see the vacation home as low cost, low risk or even a money maker.

Time to call “time out” and regroup. What was going to be a vacation home is morphing into a small business, and vacation rentals are not a great business for most homeowners. We do not rent our Montreat house. It has been rented in the past, but we found the business of renting to be more of a hassle than the rents were worth. We are not alone in that assessment.

A report from HomeAway, a vacation rental site, estimated that vacation rental owners spend an average of nine hours per week marketing or managing their properties. Further, it indicated that rents don't even cover 75% of the mortgage payments for about half of vacation homeowners renting their properties.

That's just the mortgage and doesn't include maintenance or management fees. The study shows the average homeowner is able to rent just one-third of the year. All the expenses of owning a home continue year round.

Occupancy rates are far lower out of season than in season. Out of season is less likely to be a time when family or friends can get the time to visit. Many renters don't want to or can't rent a full week, and many homeowners find they want to use the home themselves during the season, eliminating some of the prime times for bringing in revenue. HomeAway estimates that almost two-thirds of rental owners spend even two weeks at the property.

Of course, agents like to remind people that real estate is all about location, location, location, and *this* property is way above average. Naturally, some properties really are above average. How can one tell what is true? The easiest way to cut through the anecdotes is to get a hold of tax records. Have the seller complete a Form 4506-T, Request for Transcript of Tax Return. The client will fill one out if applying for a mortgage. They should get one from the prospective seller.

Schedule E will bring some real numbers to the specific property. From there, one can assess the less tangible costs to generating the results seen and reduce the risk of a costly surprise. If a seller won't do this, it should be a deal killer.

Our vacation home has been wonderful for our family. We don't rent it and don't need to rent it to afford it. We have used it a lot. If a client can afford a vacation home without renting and they truly contemplate some of the qualitative issues I have mentioned, I readily support the choice.

For clients that must rent to be able to afford the property or would have difficulty using the property a lot, the numbers rarely add up. I encourage clients to really think through the reasons why they think the property will be good for them. In many cases, they can come up with a way to address the underlying need in a less problematic way.

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