

# How to buy a second home

David McMillin · 9 hrs ago



© David Sacks/Getty Images Opportunity beckons for second-home buyers

If too much time at home in the last year made you want to see another set of four walls, you might be trying to figure out how to [buy a second home](#). You're not alone, either. The number of borrowers who locked in [mortgage rates](#) for second home purchases has increased by 128 percent, according to a year-over-year [comparison](#) by real estate brokerage Redfin.

Second homes offer benefits that extend past the pandemic, too. With a second home, you always have a vacation destination, and if the housing market works in your favor, you'll own an appreciating asset instead of paying to stay in a hotel.

If you've been thinking about buying a second home, now could be a good time to take the leap. Mortgage rates are still low, and home prices in vacation towns are going up, the Redfin analysis shows. Here are some key things to think about before you buy a second home.

## Key considerations for buying a second home

A second home may be a place to vacation, but owning it isn't a carefree activity. You'll need to plan for additional expenses and pay attention to the amount of time you — or others who are paying to use it — spend there.

- Affordability:** If you aren't paying [all-cash](#) for your second home, you're going to have a second mortgage payment. Take a close look at your budget to determine if that extra monthly cost makes sense for your finances. You'll also need to prepare for another homeowners insurance premium, utility bills, property taxes and all the other [expenses of owning a second home](#).
- Occupancy requirements:** If you're buying a second home, you may be thinking about making some money from it when you're not using it. However, if you rent it out too often, your second home would be considered an investment property and could be subject to different requirements. If your loan is backed by Fannie Mae or Freddie Mac, for example, the property must be "available primarily for borrower's personal use and enjoyment" for more than half of the calendar year. The IRS has rules, too: If you rent your second home out for more than 14 days a year, you'll need to report the rental income.
- Location:** Buying a second home in a town by the ocean sounds like a great idea, but if you live really far from that town, getting there might be so much of a hassle that you don't go there that much. Think about your lifestyle, and find a second home in a destination where you'll take advantage of having it on a regular basis.
- Maintenance:** Even though you won't spend as much time in your second home, you'll still need to pay for upkeep. The HVAC system will eventually need to be replaced, and the property may need a new roof. The exterior will also need attention (think lawn mowing and snow removal), so if you aren't there often, you'll need to budget for a maintenance company to handle it.

## How to buy a second home

### 1. Find a real estate agent

The best way to go about buying a second home is to find a real estate agent who's plugged into your desired location. The right agent can fill you in on price histories and how [comparable sales](#) have fared, as well as resale prospects.

"A good agent knows market trends," says Nathan Zeder of The Jills Zeder Group with Coldwell Banker in Miami Beach and Coral Gables, Florida, including "how long homes have been on the market; if there are homes not currently on the market that might be available; why one side of the street could be worth 5 percent more than the other; if the direction of the backyard gets better sun; and how close the schools, restaurants, city centers, airports, country clubs and marinas are."

Putting all of that together, Zeder says, "allows the buyer to make the best decision, not only about the home but about the location they are choosing in their new community."

When you're interviewing potential agents, Zeder recommends asking questions about how long the agent has lived and worked in the area and how he or she is involved in the community.

### 2. Get preapproved

When you were buying your first home, [getting preapproved for a mortgage](#) showed you were a serious buyer. Buying a second home is no different. A preapproval shows that you've already done some work to move the transaction forward and that a lender is ready to help you make the purchase.

Shop around for rates, too. If you can shave off a few points from your interest rate, you can save thousands of dollars in the long run, which means you can enjoy being in your second home knowing you're paying less.

### 3. Look for a second home

Just as you compared different neighborhoods and options with your first home, be open to touring a range of different properties for your second home to see what fits you and your family's needs best. Research local property tax rates, and try to get a sense of the housing market in the area. Is it trending upward, a sign that your second home could also increase in value?

### 4. Make an offer

Once you find the perfect place to call your home away from home, it's time to buy. If you can make a sizable down payment and still leave plenty of cash reserves, go for it — a bigger commitment on the front end can pay off in the big picture and reduce your overall debt burden.

Keep in mind that getting second home insurance may be more challenging than for a primary residence. If you're considering a second home on the beach, for instance, you'll need [flood insurance](#). It has become more difficult to get flood insurance in coastal communities, and the cost has increased exponentially in some markets. Discuss these expenses with your agent and make sure your budget lines up.

## Second home vs. investment property

[Second homes and investment properties](#) can be easily confused. If you're borrowing money to get the home, it's important to be honest with your lender about your plans for its use. That's because lenders have different down payment requirements, credit standards and interest rates for these two types of properties.

In addition to securing a loan, understanding what distinguishes a second home from an investment property is important when you file your taxes. If you use it as a true second home — rather than renting it out — you could get a deduction for mortgage interest and property taxes, just as you do with your first-home mortgage. However, this deduction is capped at \$750,000 of total mortgage debt. If you already have a \$750,000 mortgage and get a loan for a vacation home, for example, you won't be able to deduct the interest on the second mortgage.

Property taxes you pay on your second home are also deductible, but the IRS limits the total deduction for all state and local taxes to \$10,000 per return. Different tax rules apply for second homes deemed [investment properties](#) rather than vacation homes, too.

## Bottom line

Buying a second home means you always have a place to escape, but being a second homeowner comes with some harsh realities: more costs, more maintenance worries and more potential tax stresses. If you plan to obtain a second home mortgage, get the financing lined up in advance, and partner with the right real estate agent who has experience in the area you're hoping to call your second home.