



BOZEMAN
BROKERS
REAL ESTATE



QUESTIONS TO ASK BEFORE BUYING A SECOND HOME

1. How much will a second home cost? Besides sale price, you should factor in mortgage, property taxes, insurance, utilities and maintenance fees-and some of those expenses are probably higher than you think-plus up to 1.25 percent of the purchase price to cover annual maintenance and unexpected repairs. You'll also need to budget 20 percent more for insurance than you pay for your primary residence; if you rent out your second home, you'll also need medical and liability coverage.

2. Can you truly afford a second home? You should only buy a second home after the rest of your finances are in tip-top shape. All of your mortgage payments-including the second home and remaining debt should consume no more than 36 percent of your monthly gross income. If you can't make those numbers work, this probably isn't the right time to spring for second home.

3. Are you buying it for the right reason? Some people view a vacation home as a way to save on the lodging fees they pay on their annual trip. But you can take pretty swanky vacations for what you'll spend on a vacation home. It might help to view Home #2 as an investment-either as your retirement home or a property you can sell later to boost your retirement income. Research median home prices over the last 10 years to see how a property has performed historically.

4. How do you plan to use the home? If you're buying a second home for your own personal use, purchase one you love. But if you're counting on rental income to cover the mortgage, be more conscious of the home's location and appeal to renters. Also remember that different tax rules apply according to whether your second home is for personal use or if you rent it. Given the complexity of tax considerations and reporting rental income, it's a good idea to consult with a tax professional before you decide to buy.

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5. If you rent the home, is it the right property? First, think about how often you'll want to rent, plus how long the potential rental season will be, then calculate how much you can make per year. Is it enough to cover the mortgage, taxes, insurance and marketing for the property you're considering? While you're vacation-home shopping, take a look at similar properties in your area to see how active the rental market is, how other places are priced on a nightly or weekly basis, and how attractive your home will be to potential renters. Make sure it will stand out.

6. Will you need to hire a property manager? Many people start out thinking they're going to do all the work themselves-advertising, finding and screening tenants, cleaning, handling contracts and deposits, and regular maintenance and repairs-until they realize finding tenants and doing paperwork takes up a lot of time. Then the idea of paying a property manager 20-30 percent of the rental income isn't so bad.

7. Is the home located in a high-risk area? Homes located in designated flood zones or areas that are prone to other natural disasters such as earthquakes or tornadoes will cost more to insure. Waterfront homes might attract more renters, but you'll pay more to cover them. Only you can decide if extra insurance costs, plus restoring a damaged home is worth the hassle, if you buy in a riskier area, budget for higher and sometimes unexpected costs.

8. Are you rushing into the decision? Don't let impulse or emotion pressure you into an unwise purchase. Do your research and sleep on any big decisions you face. Second homes are a luxury, so time is on your side when you're ready to start looking.

Investing in a second home can be challenging, but it can be exciting too. Depending on your needs, owning a second home can give you a sense of freedom or a new source of income. Start with these eight steps and very soon you too can enjoy the long term benefits of investing further in your future.

Know that Bozeman Brokers will always be here to help. As Real Estate Professionals, we can help you understand the benefits of venturing into a second property. Call us today.

