

SECOND HOME CONSIDERATIONS

By Mendy Diel, Vice President, Private Banking Relationship Manager, Commerce Trust Company

You've found your perfect getaway spot to spend your weekends, summer vacations, holidays, and retirement with family and friends. Perhaps it's a beach house, mountain cabin, ski condo, or luxurious home in an upscale resort community. Or maybe you're contemplating your next adventure in a place you've only read about or passed through once or twice. The big question is this: **"Is now the time for you to buy a second home?"**

You're not alone in considering the answer to that question.

Currently, record-low interest rates are making homes more affordable for buyers wanting to jump back into the housing market. According to Lawrence Yun, chief economist for the National Association of Realtors®, existing home sales are expected to reach 4.93 million units in 2020 and new home sales to hit 690,000. "All figures light up in 2021 with positive GDP, employment, housing starts, and home sales," Yun says. Sales are forecast to rise to 5.35 million units for existing homes and 800,000 for new homes.¹

'LOCATION, LOCATION, LOCATION.'

It comes as no surprise that in some of the tightest markets across the country, well-priced homes in the most sought-after locations can sell within a few hours of going up for sale. In other areas, buyers can take their time to decide.²

Given the times we're living in, likely you've heard the stories about wealthy American families fleeing the cities for less densely populated areas. According to a recent article on www.barrons.com, however, only 30% of wealthy U.S. investors surveyed plan to forsake metropolitan areas for traditional vacation or retirement spots.³

The "new normal" may be that their choice location for a second home is just as likely to be near—rather than far from—their permanent residence.

THE PROS AND CONS OF OWNING A SECOND HOME.

A second home purchase can fulfill a lifelong dream or quickly become your worst nightmare, which is why you need to make a balanced, informed decision. The following points may help.

Owning Pros

- If you choose to take out a mortgage, you can choose the best time to buy to take advantage of low interest rates and depressed prices that lock in the price of your second home.
- You can stay in your second home for as long as you want, whenever you want. If you plan on living there for more than six months out of the year, you may want to establish residency to potentially reduce your state income taxes (Florida, for example, has no state income taxes.)
- You can host family and friends during peak season or holidays or allow them to stay at your second home throughout the year.

- Your second property could be a steady source of income, as online rental services can easily facilitate and manage renting out the home for weeks or months at a time when you're not staying there.
- If you choose to not use your property for rental income, you can furnish your second home to express your personal taste and lifestyle, leaving personal belongings in place when you leave the property (e.g., clothing, furniture, household items, sporting equipment, and a car).
- Hopefully, your property will increase in value over time and provide a return on your investment when it's time to sell.
- You can take joy in the pride of ownership and the memories you will build year after year in a place you love.

Owning Cons

- You have little or no control over your municipality's assessment of your second property—rising real estate taxes have become a challenge for home buyers in some states.
- Out-of-pocket expenses can be steep. Mortgage payments (if you did not pay cash for the property), residential and groundskeeping fees, association assessments, recreational dues, professional services fees, real estate taxes, insurance, utilities, maintenance, and continual upkeep are just some expenses to consider.
- Travel costs to and from your permanent residence to your second home can be time consuming and expensive long term.
- The potential return on your original investment may be diminished if you need or want to sell in a buyer's market.

THINK ABOUT YOUR SECOND HOME'S FUTURE TOO.

One of the most important considerations you need to think about is the purpose of your second home. Do you want to buy a house that will one day become the place where you retire? Will family stays become a tradition and the legacy of the home pass on to your children? Are you buying the home as investment property to generate income now and hopefully sell at a profit later?

A second home as a family asset is very different from investment property. That difference can affect your taxes and the insurance coverage you'll need. If you rent out your property part of the year to offset your expenses, there are different tax rules depending on how much you use the property for personal or rental use. There are many more considerations that you should explore with your accountant or tax advisor.

LOOK AT THE NUMBERS.

Whether you decide to take out a mortgage or pay cash for your second home, an experienced banker can be invaluable in helping you understand the various costs and other options available to you.

For example, instead of liquidating assets or using cash for the purchase, investors often have the additional option of borrowing against their securities. With securities-based lending, you retain ownership of your investment while borrowing against the value of it. This common borrowing strategy gives you flexibility, a sense of control, and preserves emergency cash. Your banker can explain all options available to help you make the best decision for your unique financial situation.

COSTS VARY BY LOCATION.

Home purchasing costs can vary all across the board depending on the region of the country where you're planning to buy. For example, a second home in a developing leisure community an hour or two away from your permanent

residence may be less expensive—and more desirable right now—than established vacation hot spots across the country. Additionally, closing costs can vary from state to state and city to city. These nuances could be a difference of a few hundred dollars to a few thousand dollars. Rely on an experienced real estate professional to help you crunch the numbers.

IT'S A BIG DECISION.

Remember, purchasing a second home is a big decision that should be made carefully and in the context of your total financial life. Commerce Trust Company can help you build a team of professionals including a banker, tax advisor, real estate agent, and advisor to help you navigate the process. Contact us today—we will listen to your concerns and discuss how these and other considerations fit into your plan's financial goals.

¹ Source: National Association of Realtors® Newsroom, “Pending Home Sales Notch Record-Setting 44.3% Monthly Increase in May,” <https://www.nar.realtor/newsroom/pending-home-sales-notch-record-setting-44-3-monthly-increase-in-may>, July 2020.

² Source: <https://www.realtor.com/news/trends/hoping-to-buy-a-home-in-2020-the-easiest-and-toughest-places-to-find-one/>, June 2020.

³ <https://www.barrons.com/articles/three-quarters-of-wealthy-investors-anticipate-permanent-lifestyle-changes-after-covid-19-01594635491>

The opinions and other information in the commentary are provided as of July 28, 2020. This summary is intended to provide general information only, and may be of value to the reader and audience.

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Mendy is a private banking relationship manager with Commerce Trust Company. As a member of the private client team and an experienced, tenured private banker, she and her dedicated client support staff are responsible for ensuring each client's experience with Commerce Trust exceeds expectations. Her specific responsibilities include management of our clients' day to-day banking, cash management, and credit needs, while also helping them navigate the wide array of our financial services to find the solutions that best fit their circumstances. Additionally, she manages the Central Missouri Region private banking group. Mendy has been with Commerce for more 28 years. Mendy has a bachelor of science degree from the University of Central Missouri. She currently is a board member for the Boone County Historical Society, Rainbow House and Women's Intersport Network (WIN). She is also a member of the Women's Network, Greater Missouri Leadership member, Columbia Golf Foundation member, Rock Bridge High School PSTA, Rock Bridge Booster Club, Columbia Board of Realtors Affiliate, and Rotary Club of Columbia Northwest. Mendy is a recipient of the Columbia Board of Affiliate Honor Society, Women's Council of Realtors Affiliate of the Year, 2008 Greater Missouri Leadership Challenge Class, Commerce Mortgage Corp. Top Mortgage Producer, and Columbia Business Times' "40 Under 40" Award class.



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