



Regions Next Step Podcast

Home Ownership 101: Purchasing a Vacation Home or Rental Property

In this podcast Jeff Prior, a Mortgage Loan Officer for Regions Bank in Birmingham, Ala., shares what you need to know when buying a vacation home or rental property.

Jeff provides tips on the following:

- Determining whether to buy a second home
- What to keep in mind when financing a second property
- The difference between renting a second home or using it as a vacation property

Episode Transcript

Narrator:

You're listening to the Next Step Podcast, "Purchasing a Vacation Home or Rental Property" – part of our Home Ownership 101 series presented by Regions Next Step – advice, tools and resources to help you get closer to reaching your unique financial goals. In this episode, we'll be speaking with Jeff Prior, a Mortgage Loan Officer for Regions Bank in Birmingham, Ala. about purchasing a vacation home or rental property. Jeff, glad to have you here today!

Jeff Prior:

Thank you! I'm looking forward to our chat.

Narrator:

Likewise! Let's dive in. Whether people are looking for a vacation home or investment property, it can be challenging to decide whether or not to purchase a second home. What do you recommend?

Jeff:

A good first step is deciding whether you want a pure vacation home that you can use whenever you like, or an investment property that would ideally generate income and cover some of its own expenses. For example, if you are purchasing the property for long term use, you should be realistic



whether you are comfortable with all of the additional expenses, how often you will actually use the property, and whether you believe the property will appreciate in value.

Narrator:

Interesting. So, do you consider a second home an investment?

Jeff:

It really depends upon who you ask and what you're looking for in a second home.

If the purpose is a vacation getaway, many will suggest not thinking of it as a property investment, but rather as a personal resource - a luxury you'll enjoy with family and friends for years to come. On the other hand, a vacation getaway, used also as a rental property could provide you the best of both worlds by covering some expenses while still allowing you to use the property on a limited basis. You'll want to factor in the costs of property taxes, fees, maintenance, the mortgage payment and other incidentals. It is up to the buyer to decide if a vacation home is a worthy investment or not.

Narrator:

Those are all really good points for everyone to keep in mind. Thank you! So, let's say that you've decided to take the plunge on a second home. What should people keep in mind when it comes to financing?

Jeff:

Financing a second home is similar to financing a primary residence however, some products may require a larger down payment for a 2nd home or a higher interest rate.

Narrator:

Ok got it! What's the difference if you're renting the second home or using it as a vacation property?

Jeff:

Great question. The main difference, other than how you'll use the property, is how the property will be treated for tax purposes. For example, your ability to take advantage of maintenance and depreciation deductions or rental losses, and your obligation to report rental income is determined by whether the IRS views the property to be a personal residence or an investment property. That



distinction is determined, at least in part, by how many days you rent out the property or visit it for personal use. The bottom line, is that it is not as simple as buying a rental home, getting all the tax benefits, and also using it whenever you like.

Narrator:

So, you've explained a second home purchase and some of the benefits. Can you talk more about properties purchased specifically for investment and how they differ from second homes?

Jeff:

Sure. The decision to purchase a second home is often based on personal factors. For instance, the property might be close to family, or in a location you frequented as a child. Despite any personal connection to the property, an investment purchase should be based on analysis of the investment quality and potential future return. It should be treated much like an investor would take on any other investment decision. A property's rental history, occupancy rate, and net rental revenue are all good to consider, as well as future maintenance expenses and tax treatment. Still, location is arguably more important than ever since the vacationing public expects to find bargains in rental properties.

Narrator:

That makes a lot more sense now. Well, it sounds like the key takeaway from our discussion today is that regardless of whether you're financing a second home or purchasing rental property investments, prospective homebuyers need to do their due diligence.

Jeff:

Absolutely!

Narrator:

Jeff, thank you for your time today. This has been very helpful!

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