

## July 10, 2023 – Wealth Planning Commentary

### Planning Considerations for Vacation Homes

Everyone loves the idea of a vacation home. In practice, maintaining a second property can provide joy as well as headaches. Those looking to purchase a vacation home seem to fall into categories. Snowbirds are typically retired folks who live in northern states and wish to spend the winter in warmer locations. The inheritors acquire a family vacation property when it is passed down to the next generation. Sometimes the new owners are unsure of what to do with the property. Please review our article on the challenges of [inheriting family real estate](#).

Stillness seekers desire peace and quiet. They are typically successful professionals who are searching for a second home away from the bustling city. Multinationals or dual citizens may purchase a vacation home because they enjoy traveling to other countries and spend a part of the year outside of the U.S.

There are many benefits to owning a vacation home. It can be a place to relax, and warmer weather is generally more comfortable for the elderly and those with medical conditions. Vacationers can potentially save money by purchasing a second property if they frequently travel to the same place. Hotel bills add up, and the cost of living in a vacation home may be less. For those interested in exploring savings, a realistic breakeven analysis is recommended.

A vacation home can also keep the family connected. A strategically located vacation home can entice children, grandchildren, and other relatives to visit. Real estate may be an income-producing asset. Vacation homes can generate tax-efficient income. However, the IRS is strict about rules for personal use. The homeowner has 14 days of occupancy before the deductions for rental expenses are limited. Income taxes may be lower in the state of the property. The homeowner could establish permanent residency and potentially lower their income tax bill. The most prevalent example is Snowbirds migrating to Florida.

With potential benefits also come some risks. Purchasing a vacation home is a significant cost relative to assets at most wealth levels. Some homeowners pay all cash and others take on debt, albeit at higher interest rates now than in the previous 10 years. There are additional expenses to consider. Maintenance, property taxes, insurance and HOA fees add up. The vacation home may require purchasing another vehicle. The cost of maintaining multiple homes can significantly deplete wealth over time.

Mental health is also an expense – Managing multiple properties can be a headache, and the more remote a property, the more likely the headache devolves into a migraine. Renting property is not as easy as many aspiring landlords think. There's also an opportunity cost associated with purchasing a vacation home. The funds may be invested in a diversified portfolio and potentially grow at a higher rate than the value of the property. Greater liquidity allows more flexibility for spending in later years.

Finally, there's the cost of insurance to consider. There seems to be a high correlation between where people want to vacation and a higher-than-average risk of a catastrophic event. [Rising P&C insurance costs](#) are affecting homeowners in popular vacation destinations. States such as Florida and California, where many Snowbirds frequent, are subject to extreme weather events. Insurability and cost must be monitored and budgeted accordingly.

On another note, those purchasing a home in a different state should update the estate documents to help avoid ancillary probate. Ancillary probate is an additional, simultaneous probate process required when the deceased owner is a resident of another state. The laws of a state where the property is physically located typically govern what happens to that property when the owner dies—not the laws of the state where the decedent lived at the time of death.

Please reach out to your Wealth Manager with questions about purchasing a vacation home.

## *Disclosures*

Investment advisory services offered through Robertson Stephens Wealth Management, LLC (“Robertson Stephens”), an SEC-registered investment advisor. Registration does not imply any specific level of skill or training and does not constitute an endorsement of the firm by the Commission. This material is for general informational purposes only and should not be construed as investment, tax or legal advice. Please consult with your Advisor prior to making any investment decisions. This material is an investment advisory publication intended for investment advisory clients and prospective clients only. Robertson Stephens only transacts business in states in which it is properly registered or is excluded or exempted from registration. A copy of Robertson Stephens’ current written disclosure brochure filed with the SEC which discusses, among other things, Robertson Stephens’ business practices, services and fees, is available through the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). © 2023 Robertson Stephens Wealth Management, LLC. All rights reserved. Robertson Stephens is a registered trademark of Robertson Stephens Wealth Management, LLC in the United States and elsewhere.