

BUSINESS & FINANCE

Vacation Homes: Why It May Be Time to Buy

Some Markets are Stabilizing As Buyers Snap Up Bargains; 'Frugality Fatigue'

BY Jessica Silver-Greenberg

The clouds hanging over upscale vacation-home markets are starting to lift. While prices are still falling in most regions, the luxury segment is picking up, and brokers are reporting more inquiries than they have had in years.

The upshot: If you have the money and plan on staying put for the long term, now may be a good time to buy.

Five years after housing's peak, markets that once were out of sight even for well-heeled buyers are now in range. On Hilton Head Island, S.C., a three-bedroom home nestled between the Atlantic Ocean and Calibogue Sound changed hands in April for \$750,000, after having sold for \$1.2 million in June 2006. In Vail, Colo., a three-bedroom home that fetched \$3.3 million in 2008 sold in February for \$2.5 million.

Overall, the median second-home price was \$150,000 in 2010, down 11% from 2009 and roughly 25% from 2006, according to the National Association of Realtors. That isn't pretty, but it is only slightly worse than the 22% drop for the overall housing market. The higher end of the market—homes in the \$5 million-plus range—has held up better, says Douglas Duncan, chief economist at Fannie Mae. "At the top of the market, particularly luxury homes, prices have proven very elastic, and have sprung upward quickly," he says.

BLUE CHIPS



DEPRESSED MARKETS



Buyers are taking heed. On Palm Beach Island, Fla., sales were up 50% in the year ending June 30. Transactions in the Hamptons, on New York's Long Island, jumped 59% in the second quarter from a year earlier. In Aspen, Colo., sales for the year ending May 31 were up 10%.

The number of people looking at properties is up as well: In Vail, Hilton Head and Palm Beach, foot traffic has jumped by at least 30% this year, according to local real-estate agents. "People have frugality fatigue," says John Burns, president of John Burns Real Estate Consulting Inc. in Irvine, Calif.

This isn't to suggest the boom is back. In general, properties situated in prime locations—on the water or near a ski slope—are selling well, but homes in less desirable spots are languishing on the market. Banks are increasingly wary of making second-home mortgages, particularly "jumbo" loans above federally guaranteed limits; 10% of banks raised their standards on such loans last year, according to the Federal Reserve. And the tax deduction for mortgage interest on second homes is at risk of being cut back.

Geography is the best guide to today's vacation markets: In some places prices are holding up, while in others they are still tanking.

The blue-chip market consists of a handful of spots where prices have stabilized and could soon rebound as sales pick up. Some, such as Hilton Head, have benefitted from tough restrictions on building, which kept inventories manageable during the bust. Prices there have risen by 4% during the past year.

The other market is still very much in crash mode. In places like Miami, Fla. and even Martha's Vineyard, Mass., prices have continued to drop as foreclosed properties flood the market. But bargains abound as sellers cut their asking prices or accept less to unload properties. In March, for example, a three-bedroom home on Palm Beach Island, Fla., listed for \$4.6 million sold for just \$2.5 million.

With the broader housing market still so sick, it might seem the height of folly to jump into such unpredictable investments now. Even in blue-chip markets there isn't a guarantee of price appreciation anytime soon. Indeed, over time vacation-home markets don't do noticeably better than primary-home markets. Homes on Martha's Vineyard appreciated by 40.9% over the past 10 years, edging out Boston's 40.5%. But Hilton Head's 15% gain was trounced by nearby Charleston, S.C.'s 25.4% rise.

Then again, most vacation-home buyers aren't looking to make big investment profits. More than 80% of second-home buyers surveyed by the National Association of Realtors in May reported that they bought for consumption reasons—to live in the house and enjoy it.

And many second-home buyers are wealthy enough to pay in cash, sidestepping the restrictive and time-consuming mortgage process. Last year, 36% of vacation-home transactions were all-cash deals, up from 29% in 2009, according to the National Association of Realtors. "If you have cash right now, you are in unique position," says Paul Dales, senior U.S. economist with research firm Capital Economics.

If you are thinking of taking the plunge, here is a look at some prominent markets across the country.

Blue Chips

These markets are stabilizing and, in some, prices already have started to rise.

Santa Monica, Calif.

Median home price: \$695,000

Median home price five years ago: \$1,000,000

Market Snapshot: Situated roughly halfway between San Francisco and Los Angeles, Santa Barbara is starting to reel in wealthier buyers again, says Ken Switzer, a real-estate agent with Prudential California Realty. While prices have plunged since the peak, they have steadied out over the past two years, and sales are starting to jump, according to Paul Suding, president of Santa Barbara's Association of Realtors. Strict zoning and scarce available land helped protect Santa Barbara from the overbuilding that swept much of California, he says.

Who's Buying: With interest rates near record lows, restaurant owners Dave and Leah Larson decided it was time to buy. In June, they picked up a four-bedroom ranch-style home for \$1.39 million. The couple says the property seems like a great investment because it is on a street where homes recently sold for about \$2 million. "We're very happy and we get the tax savings on the second home," says Mr. Larson, 39 years old.

Aspen, Colo.

Median home price: \$781,000

Median home price five years ago: \$802,000

Market Snapshot: Housing economists look to Aspen as a luxury-market bellwether. Dotted with upscale boutiques and four-star restaurants, the ski town is welcoming buyers with ample cash on hand, says Steven Shane of SDS Real Estate, a local real-estate broker. Sales of \$1 million-and-above are on the rise—especially on the higher end. So far this year, 18 properties priced at \$5 million or above have sold, up from 14 in the same period last year.

Who's Buying: Laura Stovitz, a Los Angeles lawyer, already had a second home in Aspen but couldn't resist the opportunity to trade up. In April, she sold her town house for \$3 million and purchased a \$6.5 million home with three bedrooms, an office, gym and adjacent guest house. She says she isn't worried about falling prices because the posh ski town seems so "European in its appeal and will likely be insulated from the domestic market's doldrums."

The Hamptons, N.Y.

Median home price: \$680,000

Median home price five years ago: \$1,100,000

Market Snapshot: Prices have fallen 42% since their peak, but sales are picking up, say real-estate agents. That's thanks, in part, to the return of Wall Street bonuses, says David Adamo, chief executive of Luxury Mortgage Corp. in Stamford, Conn. Despite booming sales, prices have fallen in the past year, creating opportunities for buyers, according to Clear Capital, a Truckee, Calif.-based research firm. The best deals, of course, can be found away from the water, where inventories are high and properties are sitting for longer.

Who's Buying: Jeffrey Ponzo, a retail executive, is still marveling at the deal he got on his ranch-style home with a pool and tennis court in East Quogue, N.Y. The 45-year old New Yorker closed this month on the \$950,000 home; a year earlier, it was listed for \$1.1 million, he says. "The return on a quality-of-life aspect far exceeds any money I might have saved if I waited for prices to fall further," he says.

Hilton Head, S.C.

Median home price: \$307,000

Median home price five years ago: \$574,000

Market Snapshot: Sales are up 17% for the year ending June 30, according to Jim Keilor, a real-estate agent with Hilton Head-based Alliance Group, while prices are ticking up. The vacation spot, famous for its golfing and lush beaches, didn't see the overbuilding found in places like Phoenix and Las Vegas. "We were insulated from much of the pain elsewhere because we are an island," Mr. Keilor says. Interest from buyers is back to 2006 levels, says Randy Smith, a real-estate agent on the island.

Who's Buying: Steve Race, 52, purchased a two-bedroom oceanfront home in April. The former Lockheed Martin executive, who took a buyout in February, wanted a sunny spot at a good price, but didn't want to brave the "softness" of the foreclosure-scarred Florida markets. He watched prices fall for more than two years, he says, before deciding that even if they fell further he was scoring a good deal on the two-bedroom house he bought for \$500,000. Given the uncertainty of the stock market right now, he says, he would rather have his "money invested in a home with real value."

Depressed Markets

These areas are still suffering—but bargains abound.

Martha's Vineyard, Mass.

Median home price: \$403,000

Median home price five years ago: \$638,000

Market Snapshot: Even though this exclusive northeastern island sidestepped overbuilding during the boom, buyers still seem reluctant, says Sean Federowicz of Coldwell Banker Landmarks, a broker on the island. The problem: Martha's Vineyard is made up of six different communities, some of which have had waves of foreclosures, says Carol Shore, a real-estate agent on the island. "Even though the \$22 million waterfront properties are selling, the lower-end properties are dragging down much of the rest of the market," she says.

Who's Buying: In February, Brian Roach and his wife snapped up a three-bedroom house in Oak Bluffs for \$740,000, roughly 35% below the asking price. The 53-year-old financial-services executive is comforted by the island's cachet, which he believes will help prices appreciate down the road. "At some point, you see such low interest rates and good prices and you don't want to wait anymore," he says.

Vail, Colo.

Median home price: \$385,000

Median home price five years ago: \$562,000

Market Snapshot: Unlike its nearby resort cousin, Aspen, Vail experienced a wave of development just as the market crashed, says Josh Lautenberg, owner of Sonnenalp Real Estate in Vail. Since the peak, available inventory has shot up by 40%, he says. Although sales started picking up in 2010, there has been another dip in activity while people "wait to see if the other shoe is going to drop."

Who's Buying: Falling prices didn't discourage Peter Tempkins, a 56-year-old insurance executive, from buying a \$370,000 three-bedroom home in May. "My gut feeling is that we didn't buy at the bottom, we bought one step from the bottom, and for us it was just a great time to buy a place we love," he says.

Miami, Fla.

Median home price: \$130,000

Median home price five years ago: \$302,000

Market Snapshot: Miami was among the biggest casualties of the housing crash, in part because a wave of speculative building swept through the market. Prices have fallen 57% percent since 2006, reports Clear Capital, and 10% from last year. But bargains are beginning to attract more foreigners—particularly wealthy Venezuelans looking for a safe haven from President Hugo Chavez, says Michael Internoscia, vice president of sales for Pordes Residential, a Miami based real-estate firm, who notes that such buyers made up 35% of his sales so far this year.

Who's Buying: Sam Mandel considers himself something of a second-home veteran. Last year, the 78-year-old retired physician bought a Hamptons home in Shinnecock Bay, N.Y. In February, he purchased a home in Miami Beach's Canyon Ranch development for \$985,000. The two-bedroom condominium with beach views caught his eye because it was "distinctive and will be easy to resell if need be," he says.

Palm Beach, Fla.

Median home price: \$254,000

Median home price five years ago: \$758,000

Market Snapshot: A condo binge during the boom has led to a glut—and shoppers are swarming on low-priced units, says Alex Villacorta, director of research and analytics for Clear Capital. That is presenting bargains at the higher end, says David Fite, owner of real-estate agency Fite Shavell & Associates. Sales are on the rise: there were 29 transactions in the first quarter, typically the busiest selling season, up from 6 in 2009 and 26 last year, says Christine Franks, president of real-estate broker Wilshire International Realty.

Who's Buying: John Reid, a 57-year-old retired financial-services executive, and his sister are taking advantage of plunging prices. The siblings earlier this month purchased a \$4.75 million four-bedroom home near the ocean, in an all-cash deal. "I got the sense that prices were nearing the bottom," Mr. Reid says. "If we wanted a good deal on a fabulous home, we had to act quickly."