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Sales of vacation homes take time off

Tight credit, unemployment pour cold water on market



Happier Times: Suzanne Wegerland takes a swim in the pool at her vacation home in Costa Rica. She's trying to sell the home and has dropped the price to \$1.5 million from \$2.35 million. "It's such a beautiful place. You can sit on the patio and watch the birds, and to the left is the rain forest," she says.

By: Stephanie Armour

Since Suzanne Wegerland put her vacation home in Costa Rica up for sale last summer, she has had plenty of visitors.

Such as the giant red and green iguanas that saunter across the patio, or the pairs of yellow-breasted birds

that dip their beaks in her endless pool overlooking the Pacific Ocean.

But so far, no buyers. While she has dropped her price on the property, with its rambling five bedrooms and nearby rain forest, from \$2.35 million to \$1.5 million, she is experiencing firsthand just how dismal the market has become for vacation homes. She has enough money to pay her interest-only mortgage of \$3,800 through July, but after that, there are no funds left.

"It's such a beautiful place. You can sit on the patio and watch the birds, and to the left is the rain forest," says Wegerland, 52, of Houston, who works in the oil and gas insurance industry. She decided to sell the property because of unforeseen financial problems, such as medical expenses. "We're about to lose it to the bank."

Spring has arrived, but the sale of vacation properties is stuck in hibernation as the recession takes a toll on demand for second homes. That's leaving vacation home sellers with properties that won't sell, forcing some to rent out the homes and others to lose them to foreclosure.

Sale and prices down

Vacation home sales dropped 30.8% to 512,000 last year from 740,000 in 2007, according to a March report by the National Association of Realtors (NAR).

Prices have also tumbled. The median price of a vacation home was \$150,000 in 2008, down 23.1% from 2007.

The drop-off is caused by several factors.

Home buyers have less discretionary income, in part because many owe more on their homes than they're worth, meaning they can no longer pull out equity lines of credit. The rise in unemployment has more homeowners leery of taking on another major financial investment. And tougher lending standards are making it more difficult to buy a vacation getaway.

Investors' shrunken stock portfolios also have reduced their resources to buy second homes, says Lawrence Yun, chief economist at NAR.

Mortgage underwriting standards are tighter on second homes, often requiring a large down payment.

NAR's analysis of U.S. Census Bureau data shows there are 8.1 million vacation homes and 40.5 million investment units in the USA, compared with 75.5 million owner-occupied homes.

The market share of vacation homes was 9% in 2008, compared with 12% the year before. Proportionally, investment properties held steady at 21%.

"We've seen a really rough winter. Traffic is off about 50%. Sales are off," says Julie Wenzel, a Realtor in Lake Carroll, Ill. "We're really hoping as the stock market goes up, people will invest in real estate."

The area has a large man-made lake where people can water ski and fish, along with a full golf course and a small downhill skiing area. Vacation home prices range from \$150,000 to \$2 million.

Dennis Cullen is trying to remain optimistic. Last summer, he put up for sale his vacation home next to a golf course in Lake Geneva, Wis. He improved the townhouse by putting in granite countertops and new flooring.

Hoping for a break

But he's had no luck, even after dropping his asking price from \$419,000 to \$389,00. He and his wife, Cheryl, had hoped to sell the property and buy a vacation home in Florida, where they plan to retire. Cullen, 60, works for a small financial advisory and asset management firm in Chicago.

Plenty of prospective buyers have checked out the three-story home with its vaulted ceiling and a wall of glass that looks out on a lake that attracts deer and sand cranes.

They had one bid, but it fell through. Now Cullen is thinking of renting it for a year or two to someone who may want to try it out before buying.

"Traffic has been good, but sales are down. There are many who believe the market has not hit bottom yet, and they are not in any real hurry," he says.

Ted Jones, chief economist for Stewart Title Guaranty, believes the market's salvation rests on people who see vacation homes more as sources of personal pleasure than financial gain.

"Many are saying, 'We're going to (enjoy) our money.'...I think the second home market will see a great propensity for growth this year," he says.

But some economists believe demographic trends ensure that vacation home sales will pick up in coming years.

Currently, 39.2 million people in the United States are 50 to 59, a group that dominated sales in the first part of the decade. An additional 44.8 million people are 40 to 49.

"The Baby Boomer population is nearing retirement age," Yun says. "And many wealthier Boomers want to buy vacation homes today to make into their primary home when they retire."

Vacation home sales plunge

Estimated U.S. sales of vacation homes. (In millions)



Source: National Association of Realtors' 2008 Investment and Vacation Home Buyers Survey of 1,924 respondents, conducted in March

Who buys vacation homes

Demographic characteristics of vacation home buyers:

Median age: 46

Median household income: \$97,200

Married couple: 74%

No children under 18: 54%

Where they buy

Small town: 26%

Resort area: 23%

Rural area: 23%

Suburban subdivision: 20%

Urban area/central city: 8%

Vacation homes by region

South: 45%

Northeast: 22%

West: 18%

Midwest: 15%

Median distance from primary residence

316 miles

Source: National Association of Realtors 2008 Investment and Vacation Home Buyers Survey of 1,924 respondents, conducted in March

