

Homes Improvement

The demand for second homes is rebounding

By Elizabeth M. Economou

When Kay Constantine and her husband, George, first began looking for a vacation home, they had a list of “must-haves” in mind, including a place close to a golf course, a mountain view, a swimming pool and most of all, warm weather. • The Seattle couple, owners of Constantine Builders in Seattle—a commercial general contractor specializing in health care facilities—eventually found their dream home in La Quinta, California, about 25 miles southeast of Palm Springs. In 2010, they purchased the home in the Coachella Valley and discovered it was a fine way to spend time with friends and family. • “We have found that a second home is a great gathering spot,” says Kay Constantine. “It is a place where we can mentally relax, and where we can do as much or as little as we want.” • The best part of owning a vacation home, she adds, is having a convenient getaway without needing to pack a thing. “We board the plane in Seattle and in two and a half hours we are in the sunshine and ready to escape.”



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FROM LEFT: Kids play in one of the pools at Kukui'ula, a private club and residential community, on the island of Kauai in Hawai'i. An inviting hammock hangs between two palm trees on the lawn outside the Kukui'ula Club's Plantation House. The new development is reporting increased demand for second homes in Hawai'i.



DAVID DUNCAN LIVINGSTON

The Constantines are not the only astute buyers who have discovered the charms of the rebounding second-home market, which includes investment properties and vacation homes, or recreational homes. Experts say that declining real estate prices in recent years, combined with record-low interest rates and a large inventory of properties on the market have made this a great time to buy that dream vacation home.

The results can be seen across the country. After several years in the real estate doldrums, second-home sales are enjoying a healthy comeback. According to the most recent industry figures from the National Association of Realtors (NAR), 2011 sales of vacation homes, which are second homes primarily used by buyers, rose 7 percent in 2011 to 502,000 units, up from 469,000

units in 2010. Sales of investment properties—homes bought as investments and not for personal vacation purposes—surged nearly 65 percent to about 1.2 million units, from 749,000 units in 2010. Experts say this was, in part, due to investors buying foreclosed properties at steep discounts. Combined, investment properties and vacation homes accounted for 38 percent of all homes sold in the United States in 2011, which was the most since 2005.

Nationwide growth

The second-home resurgence is being seen in most areas of the country, but the strongest market has been, as one might expect, in the warmer southern section of the United States.

In 2011, 44 percent of all investment-home sales and 42 per-

COURTESY, LAS VILLAS DE MEXICO AT SAN JOSE DEL CABO



Las Villas de Mexico

By the Numbers

8,000,000

Number of vacation homes in the United States.

\$123,000

Median vacation-home price.

\$100,000

Median investment-home price.

305

Average number of miles from a buyer's primary residence to their vacation home.

50

Typical age of investment-home and vacation-home buyers.

25

Average number of miles from a buyer's primary residence to their investment home.

5

Average number of years that a buyer plans on holding on to an investment property.

Source: NAR's 2012 Investment and Vacation Home Buyers' Survey

cent of all vacation-home sales were in states along the southern border of the United States, from California to Florida. The remaining western United States accounted for another 30 percent of second-home sales, while the Northeast made up 15 percent and the Midwest 12 percent. About 1 percent of vacation homes were located outside of the United States, in places such as Cabo San Lucas, Mexico, a resort town where the turquoise waters of the Sea of Cortés meet the Pacific Ocean.

Walter Molony, an NAR spokesman, says statistics for 2012 won't be released till later this spring, but anecdotal information points to continued growth in the second-home market last year. He says the conditions responsible for the improvement in 2011 are solidifying across the country, and the results should be stronger sales for vacation homes into the future.

Beyond the low interest rates and lower property values, Molony says consumers are feeling more confident, thanks to a stronger economy and rising equity markets. Such factors bode well for the second-home market in 2013 and beyond.

He cautions that there may be a sales pullback in the coming years due to economic issues and that the reduction in the foreclosure inventories in the West and South could dampen sales. However,



Canyon River Ranch.

long-term demographics show that the second-home sector should remain strong for years to come. Molony points out that more than 42 million baby boomers are between 50 and 59. People in this age range account for the lion's share of second-home purchases. Another 43.5 million Americans are between the ages of 40 and 49 and many of them will soon be thinking about buying vacation homes of their own.

Chantay Bridges, a real estate specialist with Clear Choice Realty and Associates in Los Angeles, also sees a bright future for people interested in buying second homes.

"A second home can serve as a tax advantage or a hedge against inflation, giving homeowners a bigger piece of the American dream," Bridges says.

She also sees other, more philosophical reasons

Olive 8.

COURTESY: OLIVE 8



counted and distressed properties—vacation homes that may end up as primary residences later in life—in order to be closer to their children and grandchildren.

Family vacations are among the factors spurring the sale of second homes in various areas and developments, including the 1,000-acre Kukui‘ula, a private club and residential community on the island of Kauai in Hawai‘i.

Veronica Lovesy, the senior marketing manager for Kukui‘ula, says the newly constructed facility—built on a former sugarcane plantation—offers a beautiful setting and plenty of amenities, including access to a variety of swimming pools, a lagoon, a spa and a man-made beach. Club members also can play the award-winning Tom Weiskopf-designed golf course located within the development. Lovesy

for the new second-home market boom. “As kids leave the nest, families are downsizing, yet they still want a place where they can all come together and reconnect, vacation or retire,” Bridges says. This includes legions of baby boomers who are prepping for their golden years by buying dis-



says the majority of properties are being purchased as second homes and sales have increased dramatically over the past year. She notes that buyers at the resort community are purchasing cottages mainly for personal use—as a retreat to share with family and friends—while architects and builders are developing homes on the plantation property on speculation of future sales.

Custom homesites start at just under \$1 million, while fully furnished cottages—including everything from linens to flat-screen televisions—begin at \$2.2 million. Typical buyers, according to Lovesy, tend to be business owners or high-level executives who enjoy adventure and want a place to relax with their families.

“People tend to be looking for an ideal place in the sunshine that is tropical but also within the United States,” Lovesy says. “Kaua’i provides an unspoiled location for a full-time or part-time resident.”

Buyers seeking a sunny climate and lower

prices on second homes are turning to developments such as Las Villas de Mexico in Cabo San Lucas. The new development is being built in seven stages and will eventually consist of 266 units, including luxurious townhomes and condominiums.

Iris Barraza, a sales representative for HOMEX, the project’s real estate developer, says the first phase of 28 units is sold out, and the developer is currently completing the second phase, which includes another 48 units. She says that strong interest from Americans and Canadians is not just affecting Las Villas de Mexico, but it is driving prices, sales volumes, and overall demand to higher levels in major resorts and second-home destinations along the Sea of Cortés and along the Pacific Coast of Mexico.

“All-cash purchases,” Barraza says, “have become fairly common in the investment- and vacation-home market in recent years.”

She says that buyers of second homes are pur-

“There’s definitely been a turnaround in the market. Buyers are starting to understand the shortage of new inventory going forward and are getting in while new condos are available.”



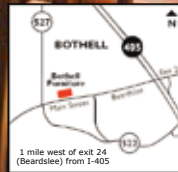
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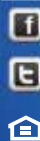


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chasing primarily for personal use. And with more than 300 days of sunshine every year in Cabo San Lucas, who could blame them? Generally speaking, lifestyle and leisure, followed by investment opportunities, are the top reasons buyers are entering the second-home market on the Baja Peninsula. “Retirement is in third place,” she says.

Buyers are attracted to Las Villas for its leisurely lifestyle and balmy climate, but for expatriates, there is an additional financial incentive at play. “Property taxes in Mexico run about \$300, depending on the type of property, per year,” says Barraza, “which is extremely low, compared to other parts of the world.”

A typical 1,900-square-foot townhome with three bedrooms and two bathrooms, plus a spacious terrace offering breathtaking water views, costs about \$500,000. Amenities include tennis courts, an 18-hole Jack Nicklaus–designed golf course, and a guesthouse. The resort also allows homeowners to rent out their vacation homes. “Inspired by colonial-style architecture with modern elements, our townhouses are the perfect choice if you are looking to experience Mexico in the most exquisite way,” says Barraza.

Urban markets

While it may be expected that second homes are selling briskly in resort areas, urban centers are also seeing an increase in sales. Michael Corbett, a real estate expert and host of Extra TV’s nationally syndicated program, *Mansions and Millionaires*, says low interest rates and cheap prices are making vacation homes and investment properties more attractive in formerly hard-hit markets such as Fort Lauderdale, Las Vegas, Miami and the Palm Springs area—major cities that saw large numbers of foreclosures.

“Second homes and vacation homes were the first to drop as people began divesting themselves of properties they could no longer afford,” Corbett says.

Now, as rents continue to rise across the country, there is a major financial turnaround under way, and many second homes are actually becoming increasingly

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lucrative investments, Corbett notes. "Properties that in the past would not show a positive cash flow or even break even are now covering their costs with the rental income," he says, "casting second homes as strong investment opportunities."

Those investment opportunities appear to be popping up in such cities as San Francisco and Seattle; in vacation communities such as Bend, Oregon; and rural stand-alone resorts, such as Canyon River Ranch, east of the Cascade Mountains in Washington state.

In San Francisco, the Madrone Mission Bay is one of the city's latest high-end condominium complexes in an area that has emerged as among the Bay area's most desirable neighborhoods. Located in the heart of the Mission Bay District, the Madrone development features two 16-story towers and one nine-story mid-rise building, and offers spacious one-and-two-bedroom floor plans that sell in a wide range, from the high-\$500,000s to about \$1.6 million. For that price, Madrone offers buyers a variety of amenities, including a pool, terrace and sun deck, an outdoor spa, lounge, movie screening room and a fitness studio.

The 329-unit complex finished selling out in February of this year, despite no reduction in price. Bosa Development, which built Madrone, has announced plans to break ground on another Mission Bay condominium project later this year.

Bemi Jauhal, director of sales and marketing, says that since Madrone went on the market in July 2011, about 15 percent of the contracted units at Madrone Mission Bay have been purchased as second homes. She says about 21 percent of those who bought properties at Madrone are baby boomers who like having a place in the city for weekend getaways, and want to be closer to family members.

"We knew inventory [in San Francisco] was low and demand would be high, but we were surprised at the level of absorption," Jauhal says. "With rental prices on the increase, people saw the advantages of buying over renting."

In downtown Seattle, business is also picking up for the city's condominium

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Tetherow Golf Club.

towers that still have properties to sell. Built above a Hyatt Hotel, the 229-unit Olive 8 was about 95 percent sold in January of this year. It offers upscale amenities such as round-the-clock concierge service and an onsite restaurant featuring farm-to-table cuisine—not surprising considering Olive 8’s proximity to Seattle’s iconic Pike Place Market. Community Sales Director Julie McAvoy says she expects to sell the remaining inventory of 11 units—which range in price from \$515,000 to \$1.25 million—by the end of this month. Beyond the low interest rates, McAvoy attributes the rise in demand to the dwindling number of new units on the market and a general “feeling [among potential buyers] that prices are at the bottom, and that the market is improving.” She notes that most of the people who are purchasing condominiums at Olive 8 as second homes live outside the city but work in the downtown core. They prefer personal residences to renting apartments or hotel rooms.

“There’s definitely been a turnaround in the market,” she says. “Buyers are starting to understand the shortage of new inventory going forward and are getting in while new condos are available.”

The rural allure

The larger market for second homes and vacation homes continues to be in resort areas, such as Bend, Oregon. Nestled beneath the snowcapped Cascade peaks, and set among the ponderosa pines of the Deschutes National Forest, Bend has developed into one of the West Coast’s top outdoor destinations. And one of the newest developments in the area is Tetherow, a 700-acre golf and planned resort commu-

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nity that boasts an 18-hole layout by acclaimed architect David McLay Kidd, the designer of the new St. Andrews Castle Course in Scotland.

However, Tetherow is not the exclusive domain of golfers. Adventurers drawn to the Oregon wilderness will be equally enthralled by the variety of outdoor offerings, such as fly-fishing, kayaking, rock climbing and more. Opened in 2008, Tetherow has had a strong appeal among several different buyer groups, says Cascade Sotheby's International Realty President, Debra Tebbs. She notes that builders and vacationers alike are buying property and building homes at a quickening pace, and area townhomes are selling for between \$400,000 and \$650,000.

"This is where I really see the second-home market coming back," Tebbs says of the Bend area, where the average home price has risen about 8 percent in the last year. "A couple of years ago there was very little new construction in Central Oregon. The market was nonexistent."

Another Northwest area making a name for itself in the vacation-home market is east of the Cascade Range in Washington state. Led by Suncadia Resort, this area is, once again, expanding quickly, along with the improving economy.

The newest vacation destination in this region is Canyon River Ranch. Located near the Yakima River, about 13 miles south of Ellensburg, Washington, the ranch offers activities such as fly-fishing, hunting and rafting. The location also offers property owners the unique chance to be winemakers. With its access to a private vineyard, property owners are entitled to a proportional share of the annual Syrah grape harvest and subsequent bottling.

The recently completed lodge is selling fractional ownership of two-bedroom condominiums. A one-sixth share of a condominium is going for \$129,000. The ranch was down to one of the original 10 cabin sites for sale as of January of this year. It is seeking approval to develop Phase II, which would open up six to eight more cabin sites for purchase.

Co-owner and partner Richard Leider says interest has increased dramatically

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over the past few months and co-owner Anthony Robins says pent-up demand is helping the second-home market gain traction. "Values have never been better," he says. "And there's the realization that it's time to enjoy life."

While most buyers are purchasing second homes at Canyon River Ranch as a quick vacation getaway for themselves, friends and family, multiple business owners are seizing the opportunity to buy units for client entertainment, employee rewards and business development, says Leider. The resort's proximity to Seattle—less than a two-hour drive via Interstate 90—also makes Canyon River Ranch an attractive investment.

Still time to buy

For those who want to join the vacation-home market, but have yet to take the plunge, real estate expert Andrew Schrage says buyers can still find attractive bargains in some of the nation's most prestigious locations.

The co-owner of Money Crashers, a website dedicated to educating readers on how to better manage their personal finances, Schrage maintains that there are still good deals to be found in such places as Martha's Vineyard in Massachusetts and the Hamptons in New York.

However, these deals won't last forever and prices are continuing to rise. According to Extra TV's Corbett, Las Vegas—where home prices fell as much as 65 percent during the recession—has seen a nearly 17 percent increase in prices since the beginning of 2012. And the number of properties for sale in Palm Springs continues to fall, leading to a hot market where it's not uncommon for homeowners to receive multiple offers for prized homes.

"Hawai'i has seen a 5.8 percent increase in home prices since last year," he adds, while "Asking home prices in Phoenix increased 24.8 percent year-over-year, between January 2012 and January 2013, marking the biggest gain among the country's 100 largest cities." 🏡

Elizabeth M. Economou is a Seattle-based writer.

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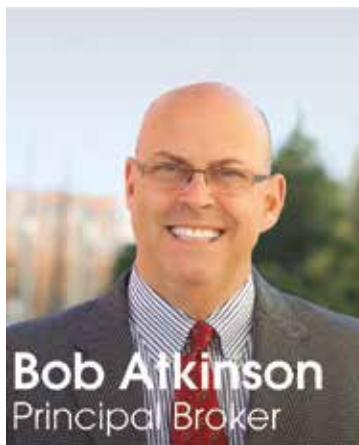
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