

Struggling Vacation Home Market Offers Rare Finds

With the economy listing, now is an opportune time to pick up prime property in places like the Hamptons, Napa, and Cape Cod

By: Prashant Gopal

Vacation towns are supposed to be stress-free zones where the most important item on a to-do list might be a store-run for suntan lotion or bug spray. But homeowners trying to find buyers for their oceanfront mansion or cottage in the woods have good reason to be anxious.

Second homes have become the hardest-hit segment of the real estate market. Vacation home sales dropped 30.8% in 2008, compared to the previous year. By comparison, sales of primary homes were down 13.2%, and sales of investment homes dropped 17%, according to the National Association of Realtors.

The reason is simple. Fewer people have the finances to buy second or, in some cases, third homes because of job losses, tighter credit standards, and stock market declines. And even if they can afford a weekend home, the uncertainty in the economy can make it seem imprudent to buy when it's less expensive and less risky to rent. What's more, rental rates have fallen as markets around the country have softened.

Big Price Drops in Scottsdale, Other Markets

"People are looking at their portfolios and realizing that they aren't as wealthy as they were 12 months ago," said Laurie Moore-Moore, founder of the Institute for Luxury Home Marketing in Dallas. "Even for people who do feel wealthy, the idea is to stand and wait in the wings and see where the market comes back, and where the value might be."

BusinessWeek.com teamed up with Zillow.com to come up with a sampling of the second-home markets with the biggest price drops and those that were holding up best at the end of last year. Prices in wealthy Scottsdale, Ariz., were down 27% in the fourth quarter compared with a year earlier. Prices were down 17% in historic Mystic, Conn., and declined 15.7% in Sunriver, Ore. Among the more steady markets were Laie, on the northeastern tip of Oahu in Hawaii, where prices rose 2.8%, and the wealthy Jersey Shore town of Mantoloking, where prices climbed 14.7% in the fourth quarter.

But even some of the relatively strong resort markets have been feeling the pain of the deteriorating economy this year. Pebble Beach, a coastal community on California's

Monterey Peninsula, had an annual home price increase of 9.3% last year, according to Zillow. But sales have significantly slowed this year, and prices are probably off about 20%, said Mary Bell, broker associate with Coldwell Banker Del Monte in Pebble Beach.

This year only 17 houses sold in Pebble Beach (the lowest sale was \$900,000, and the highest was \$3.2 million). Last year at this time, 26 homes had sold, and the highest sale price was \$16.25 million, she said.

Watching and Waiting

"Anything over \$5 million is very quiet," Bell said. "None of the buyers are in a hurry. They're all waiting to see what happens to their money."

Out in the Hamptons on Long Island, home prices have dropped 23.5% to \$675,000 in the first quarter, compared with a year earlier, according to Prudential Douglas Elliman and Miller Samuel.

John Gicking, senior vice-president at Sotheby's (BID) International Realty in East Hampton, said the winter was unusually quiet, but the market seems to be picking up as the temperatures rise.

"This summer will tell us a lot more about what the long-term effects are of what happened on Wall Street," Gicking said. "But this is still a magical place, and people still want to be here."

For sellers, a down market isn't the best time to sell. But Chris J. Farrell, an investment adviser with Northstar Investment Advisors in Denver, said some homeowners are putting second homes on the market because they can no longer charge enough rent in season to cover their annual mortgage payments and maintenance.

Buy In for the Long Haul

For buyers, the falling prices for resort homes can be tempting. Many people prefer to own their weekend home because doing so allows them to build equity, as well as a stronger bond to the community. But it rarely makes financial sense to purchase rather than rent, unless the buyer is planning to live in that home for at least five or six months per year, and keep it for at least 10 years, Farrell said.

But, this year, many Cape Cod vacationers are opting to rent rather than buy.

And Paul Grover, owner/partner of Robert Paul Properties in Cape Cod, said people who are buying now are familiar with the area and are taking advantage of opportunities to trade up. But buyers are largely waiting on the sidelines for prices to fall more before jumping in, he said.

"If somebody is apprehensive or concerned about their job or financial situation, a second home or a third home is something that is easy to hold off on buying," Grover said.