A 2021 GUIDE TO BUYING A SECOND HOME TO RENT OUT

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[Buying a second home](https://www.mashvisor.com/) to rent out during a pandemic may seem crazy to some, but it is a definite trend.

A COVID-19 vaccine is about to be distributed to key members of society in the coming weeks, and by all indications, to the general population by spring. One important factor in second home investment is [timing](https://www.mashvisor.com/blog/when-to-invest-in-real-estate-signs/). As soon as stay at home orders are a thing of the past and coronavirus travel restrictions are lifted, people are going to want to travel and vacation rental properties are going to be hot real estate investments. So it makes sense that investors are looking into second homes right now.

Mashvisor investigated the trend of [buying a second home](https://www.mashvisor.com/) to rent out. Let’s look at some of the current trends surrounding second homes and talk about a few things you should know before buying one in 2021.

The Second House Market Is Up, Not Down

[Second-home purchases are driving the surge](https://www.barrons.com/articles/second-homes-are-driving-the-u-s-s-covid-19-housing-boom-01605885642) in U.S. housing activity. Demand for buying second homes doubled this past October compared to October 2019, and last year’s market was no slouch. The data seems to clearly indicate that affluent [Americans are looking outside of the urban areas](https://www.npr.org/transcripts/921769579) to ride out the pandemic in second more rural homes and to possibly establish residency there following its end. “More than ever before, it seems like people are desiring space and nature for the sake of their mental health and well-being,” said Sotheby’s East Hampton Brokerage agent Rylan Jacka to [Veranda](https://www.veranda.com/decorating-ideas/a32416517/is-now-a-good-time-to-buy-a-second-home/).

This trend is not just regional. A [Redfin report](https://www.redfin.com/news/second-home-purchases-soar-coronavirus-pandemic/) found that eight of the ten hottest counties in the U.S. for second home sales are vacation spots. And they are coast to coast. They include [Lake Tahoe, California](https://www.mashvisor.com/cities/ca/south-lake-tahoe-investment-property-guide),  Cape Cod, Massachusetts, [Palm Springs, California](https://www.mashvisor.com/blog/airbnb-palm-springs-2021/), and the New Jersey shoreline.

4 Things to Know Before Buying a Second Home

If you, too, want to hop on this growing trend, here are a few key things to know first.

Down Payments on a Second Home in 2021

If [buying a second home to rent out](https://www.mashvisor.com/blog/buying-a-second-home-rent-out/) this coming year sounds like an idea that might work for you, the first question to ask yourself is how to buy a second home. There are multiple proven ways in which to buy a second home to rent out. The first thing to realize is that low down payment mortgages are not on the table. You will need a substantial down payment, and a budget of 30% of the assessed value is reasonable.

If you don’t have the cash on hand to make such a down payment, don’t give up. Consider two ways others have used in the past to obtain that cash. The first way is a cash-out refinancing on the primary home you own. This is not just a tool for affluent real estate investors to use.

One couple this author knows demonstrated this move by [purchasing a second home](https://www.mashvisor.com/) in the [Florida real estate market](https://www.mashvisor.com/blog/florida-real-estate-market-forecast-2021/). Working with an investment advisor, they realized that they could use equity from their primary home to purchase the second home for cash. This is a move that allowed them to buy their second home without using their savings. Within the first few months of buying the second home, they found a renter to fill the unit for the summer season. That renter became an annual customer. This couple is my parents and their success was part of my own inspiration to invest in rental property.

Older Americans may be able to borrow from retirement savings to use as a down payment when [buying a second home](https://www.mashvisor.com/) with an eye towards Airbnb or traditional renting. It is important to take a careful look at cash flow and return on investment before making such a move. Never leverage yourself beyond a level that would cause you to be harmed by a 10% downturn in home values or an extended period without rental income.

Taxation Considerations of a Second Home

When you [buy a second home](https://www.mashvisor.com/), you need to plan ahead and think about how this property will fit into your plans. If you are planning to use the home as a short-term [Airbnb rental](https://www.mashvisor.com/blog/airbnb-properties-for-sale/) and then move to the home yourself, purchasing it in your own name may seem like a reasonable approach. However, you won’t be able to deduct the mortgage interest payments on the home from your taxes. Second homes don’t apply. Remember the couple above that paid cash when [buying a second home](https://www.mashvisor.com/)? They realized that carrying a [second mortgage](https://www.mashvisor.com/blog/how-to-get-a-second-mortgage-buy-another-property/) gave them no tax advantages. So they carried the mortgage on the primary residence and shifted equity to the second home. One other advantage is that the [mortgage interest rate](https://www.mashvisor.com/blog/investment-property-mortgage-rates-2021/) is always lower on a primary residence than a second home.

*It’s a good idea to buy your second home using an LLC.*

Furthermore, the second home’s [property taxes](https://www.mashvisor.com/blog/how-to-lower-property-taxes/) will not be a tax deduction from any earnings on the property if you don’t organize the property you buy under a [limited liability company (LLC)](https://www.mashvisor.com/blog/real-estate-limited-liability-company/) or some other formal business. It is not just wise, but a requirement to understand the implications of taxable income when you buy a second home as an investment. Even if it is a short-term plan, consult with a tax professional skilled in real estate investing before you buy.

Buying a Second Home as a Vacation Property

[Buying a second home](https://www.mashvisor.com/) as a vacation property is the dream of many working American families. Those with the financial strength may be able to purchase the home and never rent it out. This is a very expensive way to acquire a property you yourself can only use for a few weeks or even a few months per year. The maintenance, taxes, repairs, updates, and utility costs will all be out of pocket, and you will find that these costs easily exceed the rent you would pay to rent a house for a few weeks.

In my family, we have experience with second homes in all three ways. We’ve owned [vacation homes](https://www.mashvisor.com/blog/how-to-find-vacation-homes-for-sale/) outright that we only used as a personal vacation spot (expensive!). We have owned a second home that we rented off-season and occasionally on-season to help cover costs. And finally, we have been long-term renters of a vacation home from a landlord we came to know well and from whom we learned some lessons.

The first lesson is that if you don’t purchase the second home under an [LLC](https://www.mashvisor.com/blog/llc-for-rental-property-investments/) and rent it out, *you have made a huge mistake.* Not only are you missing out on significant tax-side benefits, but you also put your own assets at risk in the event of an accident. If you will [rent out your second home](https://www.mashvisor.com/), buy it under an [LLC](https://www.mashvisor.com/blog/set-up-llc-for-rental-property-investments/). It is easy to do, and a lawyer can form it for you at a very low cost. This applies to buying a second home out of state. The address is not meaningful in this decision.

The second lesson is that second home renters can be repeat customers for decades. Determining your [rate of return](https://www.mashvisor.com/blog/rate-of-return-on-a-rental-property/) on a [vacation rental](https://www.mashvisor.com/) is made much easier in this regard. Just be realistic. Short-term rental properties require more maintenance, and they have a lower overall occupancy rate than traditional rental units on a lease.