

## Is A Vacation Home Right For You? Key Factors To Consider Before You Buy

After spending a blissful week at the beach, a middle-aged couple couldn't stop dreaming about buying a vacation home there. The idea of having their own slice of paradise, a place they could retreat to, became an alluring thought. They envisioned long weekends spent lounging under palm trees with family and friends and escaping the hustle and bustle of daily life. They spent the last few days of their vacation surfing real estate listings and looking for a property that would meet their needs. They planned to talk to their financial advisor when they returned home to discuss the feasibility of owning a second home.

This kind of experience is fairly common; maybe you've been in a similar situation, trying to decide whether buying a second home makes sense. While there are myriad financial considerations to owning a vacation property—like whether or not to rent it out when you're not using it and how it will affect your cash flow—the most important considerations relate to how a second home will affect your happiness and life satisfaction.

### How Much Time Do You Plan on Spending There?

How often do you think you'll use the place? If the answer is only a few weeks a year, you're likely better off renting. The expense and hassle of owning a second home are hard to justify unless you plan on spending substantial time there (months rather than weeks).

My clients who get the most out of their vacation homes spend months there developing friendships, joining clubs, and becoming part of the community. In short, their second home is actually a home, not just a place to stay while on vacation. Those who spend little time at their second home often end up selling it after a few years.

### How Does A Second Home Fit Into Your Travel Patterns?

Owning a vacation home comes with an opportunity cost: It leads to spending less time traveling to other locations. Consider whether focusing vacation time on one location fits your desired travel patterns.

For example, friends of mine bought a vacation home in Florida. They love vacationing there and rarely travel elsewhere. So, owning a second home in Florida makes sense for them.

Other friends of mine are adventurous and love to travel the world. Years ago, they bought a condo in Utah and enjoyed having a place there; however, after a few years they wanted to explore other

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vacation spots, but every time they vacationed outside of Utah, they felt like they were wasting money by not using their condo. Eventually, they sold the condo, began traveling more broadly, and rented when they vacationed in Utah.

### **Beware The Focusing Effect**

Before buying a vacation home, consider renting one for an extended period. This will help you get a feel for what it's like to live in the area and be part of the community. It will also help you avoid the focusing effect, a cognitive bias that occurs when individuals place too much emphasis on one aspect of an event or decision, often overlooking the big picture or important collateral factors.

A great example of how the focusing effect shapes our perceptions comes from a study conducted by psychologists Daniel Kahneman and David Schkade. They wanted to see if people thought living in California boosted happiness versus living in the Midwest. The results showed that while people expected Californians to be happier due to the better weather, there was no actual difference in life satisfaction between residents of the two regions. This shows how focusing on a few attractive aspects, like the weather and geographical beauty, can lead to misconceptions about overall happiness. If, however, you sat down and made a list of what added to your life satisfaction in order of importance, it would likely include things like good health, positive relationships with family and friends, job satisfaction, financial security, having a dog, and more. The climate, the view, and outdoor activities, while contributory, likely would be far down the list.

Potential vacation home buyers might be swayed by the most enjoyable aspects of their vacation experiences without considering the negative factors that owning a second home brings, such as costs, the hassle of managing it, and its impact on other travel as well as relationships back home. Spending extended time in a rental property at your intended vacation home location will help you break free from the focusing illusion and have a more realistic view of the pros and cons.

### **Stuff Equals Stress**

A friend of mine from a wealthy family has a saying: "Stuff equals stress." As families become wealthier, they tend to accumulate more stuff: houses, cars, planes, boats, club memberships, collectibles, plus investment and estate planning complexity. Each additional item requires oversight and often creates worry. A second home is a big-ticket item that generates a lot of work and stress.

Before buying, be aware of the stress and hassle of managing a second home. You'll have utilities, maintenance, repairs, property taxes, homeowners' insurance, and more to consider. This is not to say that having a vacation home isn't worth it; many of my clients treasure their second homes and find the effort and stress worth the benefits. But go into vacation homeownership with your eyes wide open about the downsides.

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### Will Purchasing The Vacation Home Enhance Your Experiences and Relationships?

Studies on happiness agree that how we spend our money is more important to our happiness than how much money we have. Two key strategies for spending money to increase happiness are to spend it on experiences rather than things and to spend it in a prosocial manner—using your money to help others or deepen relationships.

Purchasing a vacation home can work for or against these happiness boosters. On the plus side, if your vacation home becomes a hub for family and friends to visit and for you to engage in social activities and adventures with them, owning a second home can be a great happiness booster. Even though a second home is a thing and not an experience, it can generate experiences like skiing, hiking, biking, and rafting. My clients who seem to most enjoy their vacation homes create memories by cultivating experiences with family and friends at their second homes.

By contrast, if your purpose in buying a vacation home is primarily to use it as a place to retreat and relax, it may drag down your overall happiness. Having abundant leisure time seems excellent, and sure, having a few days of relaxation on vacation is nice, but too much passive leisure can decrease our sense of happiness. Plus, your happiness may suffer if you socialize less in your new location and don't establish a network of friends there.

### Conclusion

Deciding whether to buy a vacation home involves more than just financial considerations; it requires a thoughtful assessment of how it will impact your happiness and lifestyle. You can make a more informed decision by understanding the potential benefits and pitfalls, measuring your intended use, and considering how it fits into your travel patterns. Remember, a vacation home should enhance your life and provide enriching experiences. Approach the decision with clarity and caution to ensure it truly adds value to your happiness and well-being.

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