



# Second Homes: A **bright** spot in the real estate market

Matt Mullins

It is no secret that the housing market is experiencing a major correction after its long run of excessive price growth, but the one bright spot in today's real estate market is the second home.

According to the National Association of Realtors (NAR), second-home sales accounted for an astonishing 36% of all existing home and new home sales in 2006. Vacation home sales increased by approximately 5% this past year and accounted for 14% of all home purchases, while investment home sales and primary residence sales fell by 29% and 4%, respectively.

Second homes are one of the fastest growing sectors in the real estate industry and we expect it to rise over the next decade as America's 79 million baby boomers (born between 1946 - 1964, now ages 43 - 61) continue their quest for second homes. This attractive demographic is the country's largest generation. Baby boomers are still in their peak earning years, and today have more free time as they have become empty nesters. Boomers are seeking to diversify their investments, and looking for recreational amenities. At the same time, technological advances and flexible work environments have made second homes increasingly more attractive to the population as a whole.



Temperance Landing (Schroeder, MN)

People who buy second homes for their primary residence benefit from tax write-offs from mortgage interest, taxes, and insurance. Vacation home owners can avoid capital gains of up to \$250,000 (single person) and \$500,000 (couple) if they live in the house two of the previous five years prior to selling.

Many second home-owners plan to rent and/or let their children use their unit, with the long-term goal of making it their retirement residence.

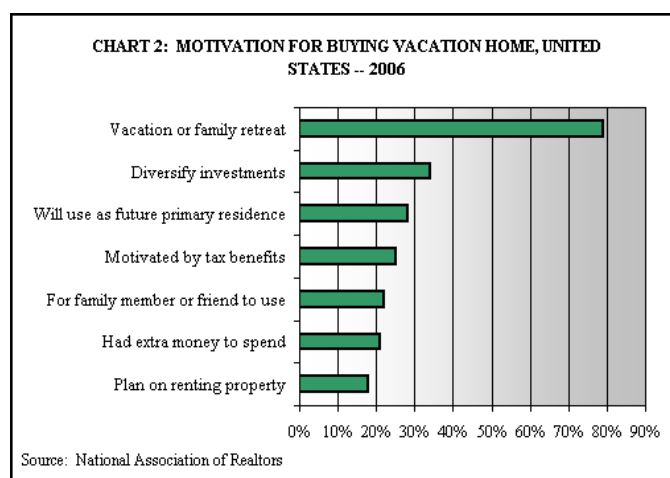


Lutsen Resort – Cliff House Townhomes (Lutsen, MN)

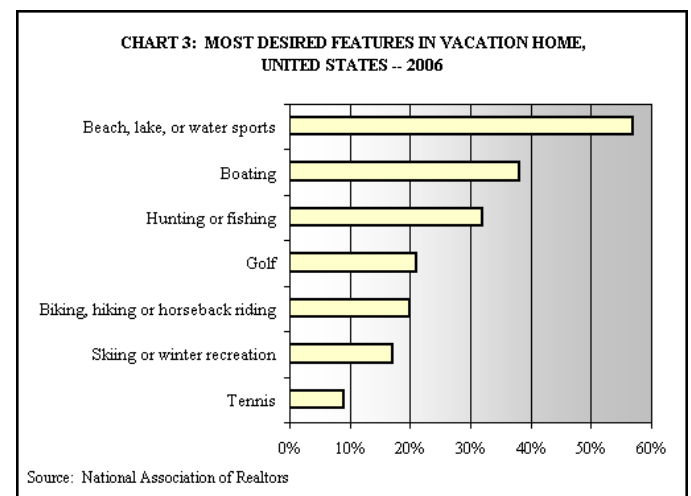
## Second Homebuyer Trends

Second-home owners refer to householders that own one or more residential properties in addition to a primary residence, and who use these properties for either investment or vacation purposes. Today, the typical vacation home owner is 59 years old, according to NAR data. An overwhelming majority of vacation homebuyers are married (78% in 2006) and about 14% of vacation buyers own more than one vacation home.

The median distance between vacation homes and the primary residence was 215 miles. However, 42% were within 100-miles and another 32% were 500 miles or greater. About half of second home owners' primary residences are in the suburbs. The following chart shows buyer motivation for purchasing a vacation home; while a significant number purchase the property for investment reasons (diversification, tax benefits, etc.), most want to have a vacation retreat for family and friends, a property to retire to at a later date.



Research indicates that nearly half of vacation homes are in resort or recreation areas. As illustrated in the following chart, most vacation home owners noted their interest in water sports as a primary motivation for purchasing a second home. Many of the desired features for a vacation home are to be found at destinations in northern Minnesota, with water sports, boating, fishing, and golf.



## The "New" Second Ownership - Fractionals

Second homes are not just limited to full-ownership product types. Today in addition to vacation homes, second homes include fractional ownership, destination clubs, timeshares, condo hotels, even houseboats. In Minnesota, growth in the leisure market, paired with the high cost of vacation property, has resulted in a growing number of fractional ownership projects in northern Minnesota.

Fractional ownership allows individuals to be able to share ownership and use a vacation home for a portion of the year, often without the difficulties and hassles associated with full ownership. There is often a management company that handles the scheduling and maintenance of the home for the owners. Fractional ownership typically divides property in fourths, eighths, and 13ths. While similar to timeshares, fractional ownership provides direct ownership of the property with deed title to the land as well. In general, the prospective buyer of a fractional product has always wanted a vacation home and has the means to secure one, but the fractional product offers all of the benefits of second home ownership at a "fraction" of the cost.

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Larsmont Cottages (Larsmont, MN)

The value in the fractional purchase is looking better each year. Even buyers who can afford whole ownership see the added benefits of fractionals. Along with their ownership, they usually receive onsite concierge services, priority tee times, valet service, clubhouse access with indoor and/or outdoor pools, exercise facilities, steam rooms, saunas, onsite restaurants, and more. Most of these amenities do not come with the traditional lake cabin. The fractional buyer is purchasing a lifestyle.

Although many fractional buyers initially desire to have their own private home, fractional ownership offers ownership to a much broader number of people and offers a reasonable amount of time for use of the unit. A disadvantage of fractional ownership is somewhat less convenience regarding use of the facility (owners are committed to specific weeks), which needs to be addressed by potential buyers.

In the North Shore area - and most recently the Brainerd Lakes Area - there are a number of resorts that offer fractional ownership opportunities. Along the North Shore, recently

completed projects include *Burlington Bay* in Two Harbors and *Larsmont Cottages* in Larsmont. These developments have a majority of three-bedroom/three bath units with quarter shares ranging from \$130,000 to \$189,000. *Burlington Bay* also offers one-eighth shares starting at about \$70,000. Other older fractional share projects along the North Shore include *Superior Shores* (Lutsen) and *Superior Townhomes* (Two Harbors). All of these developments are also available for full-ownership.



Trappers Landing (Walker, MN)

In the Brainerd lakes Area, the vast majority of vacation properties are full-ownership projects in which owners participate in a rental program that guarantees seasonal use and the ability to trade shares. The only "true" fractional ownership is *Trappers Landing* in Walker, which opened in 2007. *Trappers Landing* offers full, one-quarter, and one-sixth ownership options and also has a rental program. One-quarter share prices range from \$99,000 to \$174,000.

### Raising the amenity bar

Finally, most these new vacation developments are raising the bar with a higher-level of in-unit finishes and access to a wide variety of recreational amenities. Unit features typically include granite or Cambria counters, custom cabinetry, porcelain tile floors, ceramic tile baths, stainless steel appliances, and gas fireplaces. Many of the resort-style developments have a central lodge with a restaurant, pool, exercise room, sauna, meeting rooms, among other features. Outdoor amenities may include boat slips, outdoor grills, canoe rentals, lawn games, bonfires on the beach during the summer, and cross-country skiing and access to groomed snowmobile trails in the winter.

### Second/Vacation Home Outlook

Despite our current housing market contraction, second homes will likely remain a bright spot in the real estate market over the next decade. In Minnesota, 1.4 million of the state's 5 million persons are baby-boomers, a cohort far surpassing all other age groups. In addition, 55- to 69-year olds will account for over one-half of population growth over the next decade - the age group that is most likely to purchase a second home. Since whole-ownership second homes continue to increase in value, especially in desirable locations, fractional ownership developments are expected to become an attractive addition to one's real estate portfolio.



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Mr. Mullins joined Maxfield Research in 2003. Matt has over nine years of experience in real estate research and consulting. Matt specializes in assessing market demand for proposed and existing real estate projects, conducting feasibility studies, and real estate market analysis.

Matt is a highly motivated individual with experience in real estate consulting in both private and governmental sectors. He has conducted real estate market research on behalf of a wide variety of clients within the following industries: housing, tourism, entertainment, gaming, lodging, government and financial institutions.

Matt is a graduate of St. Cloud State University with a degree in Urban Studies and Geography. Matt is also a licensed Real Estate Broker in the State of Minnesota. Matt has completed the Mini-Masters of Real Estate Development and Mini-Masters of Real Estate Investment from the University of St. Thomas. Matt is a member of the Urban Land Institute (ULI), Sensible Land Use Coalition (SLUC), National Association of Realtors (NAR), Minnesota Association of Realtors (MAR), and the Minneapolis Association of Realtors (MAAR).

The next edition of *Sitelines* will be available in Spring 2008. The 2007/2008 Senior Housing Update will be available in early 2008. If you would like to receive a copy of the Senior Housing Update please visit our website at [www.maxfieldresearch.com](http://www.maxfieldresearch.com), or please email your name, company, and address to [paustin@maxfieldresearch.com](mailto:paustin@maxfieldresearch.com) and we will send you a free copy via email.

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