



## How Much Does It Cost To Own A Vacation Home?

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If a primary residence is the single largest purchase most people will ever make, then the second largest purchase is probably a vacation home. And just as with the purchase of a primary residence, it is important to understand the total cost-of-ownership of your vacation home so you can be confident that it will not impinge any of your other financial goals. In this brief, we provide a rule-of-thumb for assessing the annual operating costs of a vacation home that we use with our clients. We then highlight the underlying assumptions used to derive our rule and the key variables that can drive the cost up or down.

### Total Cost-of-Ownership

From working with our clients we have found the annual operating expense of a vacation home to be **approximately 2.5 – 3.5% of the home's value**. This

would mean, for example, that a \$2M property costs \$50,000 - \$70,000 per year to operate, while a \$525,000 property costs \$13,125 - \$18,375. As with any rule-of-thumb, it's critical to understand what underlies it.

First, we exclude mortgage payments because they will vary widely depending on the amount actually mortgaged. Hence, if you plan on taking out a mortgage be sure to include it in your total. Second, while we do account for the cost of minor accessories such as household supplies, furnishings, bikes, and beach gear, we do not include major accessories such as boats or pools. Finally, we assume that the typical vacation home is a single-family home that will be used for about half the year and shut down during the other half.

Also, notice that our rule says "home's value" not the "home's purchase price." This helps to ensure costs stay roughly indexed to inflation.



## Key Cost Variables

When doing your own cost estimate, it is important to try and incorporate every major expense category into your budget, not forgetting those periodic expenses that may only surface seasonally, annually, or every few years. Table 1 (on the next page) outlines our approach by detailing the annual costs of two sample vacation homes based upon a wide variety of actual cost data we have collected from clients over the years. What we have found in analyzing this data in different scenarios is that there tend to be three key variables that drive the lion's share of the cost either up or down.

- **Property taxes**  
Varies widely by locality. May include a county tax, town tax, local school tax, and state education tax.
- **Home repairs**  
As with primary homes, repairs can be very costly. Understand the home's condition prior to purchase and budget for long-term repairs in advance.
- **Discretionary spending**  
This includes things like the quality of furnishings and whether you opt for an alarm system. Often this will be correlated to the price of the home but can vary significantly based on individual tastes/preferences.

## Other Cost Factors to Consider

It is relatively easy to find examples of vacation homes that don't fit into our rule-of-thumb if you don't adhere to the same set of assumptions. So, before you start crunching the numbers, take a step back and ask yourself the following questions:

1. Will you use the home seasonally or all year round?

2. Will you finance with a mortgage or pay cash?
3. Do you plan to rent the home out to create an income flow?
4. Are you willing/able to do all the household maintenance yourself or will you hire people to do it for you?
5. Will you be keeping an extra car there?
6. Will you drive or fly to get there?
7. Is the home a single-family home or condo?
8. Will you turn off utilities in the off-season?

The answers to these questions can shift the cost paradigm. Beyond crunching the numbers, we often counsel clients to think about the purpose and value of a vacation home. Owning a second property can be a drain on your time and energy that some people end up regretting.

## The Bottom Line

While the costs tend to correlate with the value of the home due to big-ticket fixed expenses (e.g., property taxes), discretionary expenses can make a big impact on the total cost. Know (and agree upon with your spouse) how much you will spend on discretionary items and how much you will save through your own "sweat equity."

To help project your total cost-of-ownership, create a detailed budget and then compare this with our rule of thumb (2.5 – 3.5% of the home's value). When analyzing your costs, be aware of the key driving factors, such as property taxes and home repairs, and don't forget to budget for travel costs, new furniture/appliances, and other periodic expenses.



**Table 1: Detailed Annual Costs of Two Vacation Homes**

	<b>\$2M Lakefront Home (NH)</b>	<b>\$525K Mountain Cottage (ME)</b>
Property Taxes	\$25,000	\$7,400
Utilities (Heat, A/C, Water, Trash)	\$2,500	\$1,880
Cable/Internet	\$2,000	\$1,980
Home insurance	\$2,000	\$1,000
Home repairs (roof, heating system, doors, windows, siding, chimney, fence)	\$5,000	\$2,500
Winter caretaker (rake roof, plow snow)	\$800	DIY
Spring Cleaning (leaves, debris)	\$580	DIY
Alarm System	\$1200	n/a
TVs & Appliances	\$500	\$250
Home owners association dues	\$3,000	n/a
Flood insurance (low risk)	\$750	\$400
Discretionary spend on furniture, decorations, etc.	\$2,000	\$500
Lawncare (mowing, edging, trim bushes, mulch)	\$1,500	\$800
Household supplies (bathroom, laundry, cleaning, kitchen)	\$500	\$500
Bikes (incl. maint.) & Beach gear	\$500	\$100
Cleaning	\$1,000	DIY
Annual Utility Maintenance	\$250	\$250
Travel To & From*	\$850	\$850
<b>TOTAL</b>	<b>\$49,930</b>	<b>\$18,410</b>

\*250 miles round-trip ~20 trips. Includes gas and tolls.

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