Vacation home market faces long road to recovery

By Rob Reuteman, CNBC.com

The buyers' market for vacation homes is likely to continue for years, with activity largely limited to buyers with enough cash to circumvent a tighter, post-recession lending environment.

Thirty-six percent of all vacation-home buyers in 2010 did not use a mortgage – versus 29 percent the year before – while more than half of them financed less that 70 percent of the purchase price, according to the National Association of Realtors. Of those who bought a second home as a rental investment, 59 percent paid cash.

"Mortgage lending in the past three years has been pretty rough, with much higher underwriting standards," says Paul Bishop, NAR's vice president for research. "People drawn into the market at this point are buyers with substantial cash, or people not dealing with a mortgage. If your credit is strong and you put down a sizeable down payment, lenders are more interested."

Vacation homes remain the hardest-hit sector of the U.S. real estate market. Sales fell 1.8 percent to 543,000 in 2010, according to the NAR's 2011 Investment and Vacation Home Buyers Survey. The median price was $150,000 in 2010, down 11.2 percent from $169,000 in 2009.

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