

The Do's and Don'ts of Passing Down Vacation Property to Family

A family vacation home is a place of fun, memories and refuge for generations of friends and relatives. But when the matriarch or patriarch who bought the home dies, it's not uncommon for the same family members to go to war over visitation rights and ownership of the property, which can be worth a significant sum.

This is why it's important to include any vacation property as a part of the buyer's estate planning. According to the National Association of Realtors' 2009 [analysis](#) based on U.S. Census data, there are 7.9 million vacation homes and 41.1 million investment units in the United States, compared with 75 million owner-occupied homes.

Such significant property can mean significant discord when there's a desire on the part of some family members to sell. Siblings may not have the cash to buy other family members out. That's why it's important for experts in financial planning, tax and estate issues to be brought into what might seem as a fairly minor investment issue. Some suggestions:

Do a market analysis: How valuable is the family vacation home, anyway? It might make sense before you talk to any of your heirs to appraise the property and launch a competitive marketing analysis to see what other homes in the immediate area are worth. Knowing whether the property is appreciating or depreciating is important, but knowing future maintenance costs is important too. If the home is in significant need of repairs or updating, it's fair to get estimates and determine whether the owner wants to do those now or if heirs want to make that investment, at which time they'll have full control over the choices that get made.

Discuss scenarios with your team of experts: Again, it's important to bring in your entire financial team to talk through the sale or succession issues involved in deciding what to do with the vacation property. This will give you something to think about so you'll have more to discuss when you finally bring it up with your heirs.

Discuss family feelings about the property before you solidify your plans: It might be a good idea for the property owners to casually sit down with family members over time to gauge their interest in keeping the property. Eventually that can result in a more formal meeting when it's time to start making decisions. An owner might find that the children he or she were certain would want to keep the property want to sell, or vice-versa. This is one emotional investment issue, so it makes sense to take time to feel out all the family members, particularly if sets of children from previous marriages are involved.

Start developing the plan: Once you reach consensus with all relevant family members, act. If there are children who want out of the ownership plan, see if you want to compensate them and decide how that will be done. Parents might offer a buyout sum to children in the form of a gift over several years while they're alive so surviving heirs don't have to pony up after the owner dies. The key advantage of planning ahead is having the time to consider all the financial and emotional fallout before it happens. It's good to get advice on what a sensible buyout price is ahead of time. Because it won't include traditional selling costs, family members might be able to buy the property at a premium.

Consider different ownership structures: Homes that older family members want to keep in the family might consider a limited liability company (LLC) as an ownership vehicle for the vacation home. LLCs can offer lawsuit protection from creditors and users, they'll keep the property in the family and they will help the owner set up a structure for ownership, maintenance and governance issues that will stay in place long after he or she is gone. Again, financial, tax and estate experts should be consulted.

Have some fun: Don't let the process of handing down the property or discussing future ownership detract from the property's original purpose – to keep family together and to create good memories. Once decisions are made, it might be a good idea to have one last, big gathering there so everyone can either say goodbye or solidify their plans for the next generation of family gatherings.

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