Family Vacation Home Planning

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Transferring a family vacation home to the next generation without causing family strife takes serious planning. Even if the ultimate decision is to have the children own the property outright and figure out how to make it work when the time comes, parents still have to be comfortable with the possible results of that situation. There is no formula for deciding which option is best, and the options are as diverse as one family is from another.

The options include (1) contributing the property to a revocable trust created during the parents' lifetimes, (2) contributing the property to one of several types of irrevocable trusts created during the parents' lifetimes, (3) providing for the property to go into trust at the death of the parent or surviving parent, (4) creating an entity (partnership, limited liability company, etc.) to own the property, and (5) transferring the property to the next generation outright.

The discussion starts with family dynamics. Even siblings who get along reasonably well can disagree when it comes to joint financial decisions, such as carrying costs, maintenance, and renovation of a vacation property. A method should be established for managing expectations and dealing with decisions that might be emotional for some family members.

One method that parents can employ is to start "training" the children during the parents' lifetimes. Putting the property into a trust or an entity while the parents are still living and can lead by example will help the children understand the parents' intentions and get in the habit of dealing with decisions in the desired manner. Also, the parents will be able to deal with unanticipated issues that arise and figure out ways for the family to make decisions together.

The single most important decision to make is how the expenses of the property will be paid. This can include renting the property to third parties, children contributing cash and/or "sweat equity" periodically, children paying for use of the property, and other creative options. Expenses may include general property oversight and maintenance, utilities, insurance, real estate taxes, mortgage payments, cleaning, plumbing repairs, heating/cooling checks and repairs, pool maintenance and repairs, snow removal, landscaping, painting, remodeling, replacement of heating/cooling systems, roof, windows, doors, large appliances, furniture, fixtures, driveway, etc.

Some key questions to ask at the initial stages of planning:

- Will the children want to vacation in the family vacation home enough after the parents are gone to make keeping the property worthwhile?
- Will the children have the ability and the desire to provide the funds needed to maintain the property?
- Will the children be able to work together to make the arrangement work without causing major family strife?
- How should family members who contribute more to the labor involved with the property be compensated?

The children will need to have methods in place to coordinate usage of the property in a fair and equitable manner. Eventually, they will also need an exit strategy – when keeping the property no longer makes sense for the family. Once the decision to change the arrangement is made, strategies can include one child buying out the others or the sale to a third party.

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