

Family Vacation Home Succession Planning A Discussion Guide

A family vacation home is meant for families to spend time together, create new memories, and watch their children, grandchildren, and possibly great grandchildren grow. The home may also be a wise investment. But for most families, it's first and foremost a place for enjoyment. Yet as many families find out, the very space designed to serve as a family sanctuary can quickly become stressful as disagreements over the specifics of how it will be enjoyed arise. When first generation owners begin to create a succession plan for the home, these disagreements often intensify.

Vacation homes and other shared properties present a unique challenge for families looking to successfully transition the home from one generation to the next. Most inheritance items either don't carry emotional value or are physical heirlooms, such as jewelry, furniture, or even cars, that can't be divided among children or other family members. A family vacation home is a considerable asset that carries significant emotional value as well. It's also one of the few assets that can be shared and used by multiple inheritors.

What's more, the family vacation home virtually always incurs ongoing expenses, including taxes, maintenance, insurance, and mortgage costs. These expenses create additional complications for family members who may have different priorities and financial situations. What happens when one family member wants to renovate the kitchen, but another either doesn't want to or doesn't have the resources to do so?

In most families, first generation owners play a crucial role in setting up the framework for how the home will pass to subsequent generations.

There are many different techniques and ownership structures that may be appropriate for a family given the unique attributes of the property, current owners, value, tax basis, and goals. These structures often need to be flexible so they can be adjusted to meet the needs of future generations. Based upon these unique characteristics, Pitcairn works with clients and their advisors to make appropriate recommendations. While a



structure may transfer ownership, what it does not do is create a comprehensive framework for how family members will use and share the property. It's only a starting point. What families really need is an operating agreement that sets clear ground rules and expectations. This can only be achieved if the family can have a productive discussion and reach a consensus on key topics.

How Pitcairn can help

Since 1923, Pitcairn has worked with families to help maintain Wealth Momentum™ and ensure successful transfers of wealth and ideals from one generation to the next. We believe facilitating discussions and guiding difficult conversations are powerful tools to address both family and financial dynamics that can impact a family's legacy.

Pitcairn helps families develop contracts, policies, and operating agreements for a variety of purposes ranging from investments, education, and governance to charitable giving. We developed this discussion guide to help families create a plan for the family vacation home. Pitcairn is proud to offer this resource for all to use.

Facilitating a Discussion on the Family Vacation Home

Family leaders are often best suited to initiate and lead discussions surrounding a family vacation home succession plan and its ongoing use, particularly if they were involved in purchasing the home. However, sometimes using a third-party facilitator may be more appropriate. Whenever possible, it's best to conduct these conversations with all concerned family members present – perhaps at the beginning or close of the vacation season or during Thanksgiving. To maximize the effectiveness of the meeting, family leaders should also follow these best practices:

- **Schedule a time** – Selecting a specific date and time gives family members a chance to prepare for the meeting and creates a structure for the meeting.
- **Create an agenda** – Establish issues to discuss with talking points in mind to keep the conversation from getting derailed.
- **Establish goals and a timeline** – Clear objectives and a timeframe for next steps will keep family members focused on identifying solutions that all family members can agree to.

Be good communicators

1. Allow only one person to speak at a time.
2. Give all family members enough time to express their viewpoints.
3. Respect others' opinions even if yours is different.
4. Be fully engaged. Eliminate outside distractions during your conversations.
5. Pay attention to other people's body language for a better understanding of how they feel.



Tips for family leaders

1. Know what your involvement in the home is going to be. Depending on where you are in the cycle of succession planning, make sure you state how you want to be involved going forward.
2. Clearly explain your hopes and expectations for how the home will be used in the future, but be open to the input and suggestions from other family members. Understand you cannot force closer relationships through shared ownership. In fact, sometimes shared ownership can have the opposite effect. Make it clear to family members which aspects of any agreement are final and which are up for discussion.
3. Lead the discussion to make sure the conversation stays on point and everyone has a chance to contribute.

Tips for family members

1. Prepare for the meeting by identifying the issues that are most important to you and be prepared to discuss those topics in depth.
2. Limit the amount of pre-meeting dialogue that may impact the perception that an honest discussion is not desired as decisions have already been made.
3. Recognize the value of compromise in finding solutions that work for all family members.

Topics Our Family Wants to Discuss

Ownership

- Who will inherit the home?
- Will Generation 1 allocate funds for taxes, upkeep, and other ongoing expenses?
- Will each owner have an equal share?
- What is the process if family members want to sell their portion of the property?
- What happens if a family member cannot afford to pay ongoing costs related to their share of the home?



Management

- Will the home be rented out or just used by family members?
 - If it is rented, will income go toward maintenance?
 - How will additional money be distributed?
- How will future disputes be resolved (majority vote, outside arbitration, etc.)?
- How will family members decide on maintenance and improvement projects?
- How will decisions be made about decorating, design, and landscaping?
- How will the family select lawyers, accountants, insurance representatives, real estate agents, and other professionals for services related to the home?
- Will family members who take on additional responsibilities (coordinating with family members, point person for rentals, etc.) be compensated in some way (monetary, increased use of home, etc.)?

Expenses

- How will taxes be prepared and paid?
- How will insurance be procured and paid?
- How will major repairs be paid for?
- How will maintenance be paid for?
- How will landscaping, cleaning, and upkeep be paid for?



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Topics Our Family Wants to Discuss *(continued)*

Usage

- Are family members allowed to bring their pets?
- Are guests permitted?
- Will the home be in use all year or just during a vacation season?
 - Who will “open” the home at the start of the season?
 - What will “closing” procedures include? Who is responsible for those activities?
- Will stays be scheduled on a master calendar for the season?
- Will stays be bi-weekly, weekly, weekends, etc.?
- How will “prime” weekends (Memorial Day, July 4, Labor Day, etc.) be handled?
- Who will pay to replace broken items?
- Are family friends allowed to use the home?
 - Must a family member also be at the home?
 - Can children bring their friends?
- What condition must the home be left in after a stay?
 - Can food be left in the refrigerator?
 - What must be cleaned?
 - Must all laundry be done?
 - What items must be restocked/replaced?



About Pitcairn

Pitcairn is a true family office and leader in helping families navigate the challenges and opportunities created by the interplay of family and financial dynamics. This unique approach to helping families maintain their total Wealth Momentum™ is grounded in Pitcairn’s century-long experience. Since its inception, Pitcairn has partnered with some of the world’s wealthiest families to meet their needs and drive better outcomes – year to year, decade to decade, generation to generation. Today, Pitcairn is recognized as an innovator, guiding families through generational transitions and redefining the industry standard for family offices. The firm is located in Philadelphia, with offices in New York and Washington, DC and a network of resources around the world. You can learn more about our family office services as well as find additional articles, news, and events on our website at www.pitcairn.com.

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