WEALTH MANAGEMENT

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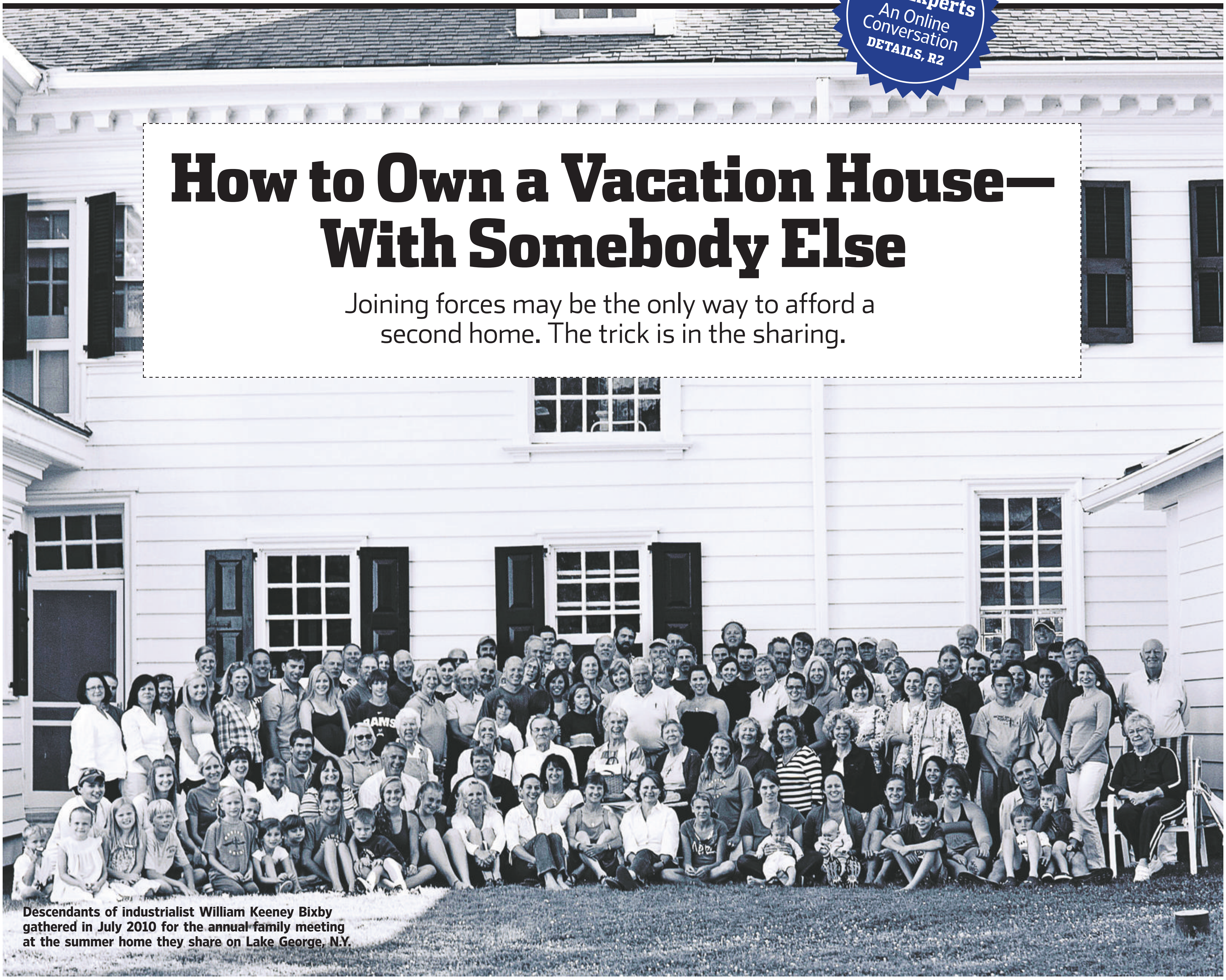
How to Own a Vacation House—With Somebody Else

Joining forces may be the only way to afford a second home. The trick is in the sharing.



Descendants of industrialist William Keeney Bixby gathered in July 2010 for the annual family meeting at the summer home they share on Lake George, N.Y.

Lucy Bixby Photographs

BY PETER S. GREEN

FIGURING OUT HOW TO SHARE A VACATION home is no day at the beach. But it may be the only way to have a day at the beach at all.

That's because the price of second homes is rising, and few people have enough cash to buy one on their own, let alone enough vacation time to justify the purchase. So increasingly they're teaming up with friends or family to buy—or, in the case of inherited property, to keep—that much-coveted retreat from the hassles of daily life.

And, too often, straight into the hassles of shared ownership. What could go wrong when sharing a vacation home with your dearest friends and family? Plenty, it turns out. The potential issues run the gamut—from how do you buy to how do you share time to how do you split costs to how do you sell.

"It's like a marriage," says Craig Gibson, a real-estate attorney in Bridgehampton, N.Y. "There's a 50% chance it's not going to work." (In case there's any doubt how Mr. Gibson feels, he calls joint ownership in general "a recipe for disaster.")

The Ground Rules

So, how can buyers reduce the likelihood of a disaster?

First off, experts say, consider the *type* of property carefully.

Kirk Booth, a broker in Asheville, N.C., counsels people looking to jointly buy a vacation place for the first time to start small. Try a planned community, where maintenance and the pool are part of the common charges, he urges, leaving fewer issues to complicate a relationship.

Also decide *how* the property will be used. Will it be primarily a vacation spot for the owners to use, a place they can rent to others or some combination? It's all too easy for people to approach a purchase with very different assumptions and figure everyone else is on board.

Ryan and Michele DeShazer, of Columbus, Ohio, had long talks with their co-buyers before purchasing vacation properties in Surfside Beach, S.C. The verdict: rentals, at least for now.

"We all agreed that we are not going to personally make a profit or use the houses as a vacation home for a while," says Ms. DeShazer, who adds that she's hopeful the two families can afford to begin vacationing in one of the homes some time soon.

Discussing, researching and agreeing in advance seems to have worked, she says. "We are all still happy and friends—so we are doing something right."

Experts also say that it's crucial that joint buyers spell everything out ahead of time. "You have to put together a checklist of all the things you need to agree on and all the things that could go wrong," says Jeff Lichtenstein, a real-estate broker in Palm Beach Gardens, Fla. "Basically, you need a real-estate prenuptial."

When it's time to make the purchase, buyers also should think about *how* the deal will be made. Mr. Gibson recommends setting up a limited-liability corporation to make the purchase. This setup keeps the buyers' personal finances separate from the property, he says, and the partners can set out their rights and obligations in the company's founding document.

Dropping Out

For one thing, what happens if a buyer can't keep up with obligations? Anyone can suddenly become unable to meet joint payments on a home,

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Leisure Sale

Vacation-home sales rose nearly 30% in 2013 from the previous year, with 41% of purchases taking place in the South.

717,000 Number of vacation homes sold in 2013

$168,700 Median sales price

66% Percentage of vacation homes sold that were detached single-family properties

$85,600 Median household income of vacation home buyers

55% Percentage of buyers under age 45

38% Percentage of buyers who paid cash

53% Percentage of buyers who plan to own property more than six years

52% Percentage of buyers who are likely to purchase another property in the next two years

Reasons for Buying

Reason	%
To use for vacations or as a family retreat	87%
To use as future principal residence	31%
Diversification/good investment opportunity	28%
To rent to others	23%
For a family member, friend or relative	22%
Had extra money to spend	13%
For the tax benefits	13%

Source: National Association of Realtors Investment and Vacation Home Buyers Survey 2014; HomeAway.com

The Wall Street Journal

How to Own a Vacation Home With Others

Continued from the prior page

says broker D. Patrick Lewis, in Scottsdale, Ariz. So, an exit plan should be a key part of any arrangement.

"It is necessary to have both blunt, exhaustive and sometimes uncomfortable discussions with all parties," says Ms. DeShazer.

Chuck Bennett, a broker in Rancho Mirage, Calif., says partners should agree at the start how long to hold the property or how often to evaluate whether to keep or sell. "One person almost always wants to back out, gets a divorce or loses money, so you just have to keep your agreement as ironclad as possible and set reasonable expectations about everything," he says.

Mr. Booth, the broker in Asheville, suggests giving the remaining partners the right of first refusal if one wants to sell. "It's very important that everything be agreed up front," he says. "I may not like who you are going to sell it to, and don't want to be in a business with that person."

Another big consideration that often gets overlooked—but should be settled in advance—is maintenance. Who's responsible for keeping the place clean and in good repair? That can be especially tricky if the property is hundreds of miles away or more.

One solution is to rotate the job so nobody has to do it full time. For the past 12 years, Sabrena Tufts and her two sisters have been sharing a Martha's Vineyard summer home they inherited from their mother. The sisters initially divided the responsibilities for the home into three buckets—financial, rental and operations—and rotate the responsibilities each year.

That makes it more palatable to deal with repairs and contractors from a distance, such as last year when they had to raise the house and dig a foundation. "Doing construction on an island far from where you live can be aggravating," says Ms. Tufts. "But we were able to do it because we shared the chores."

Another important financial step to take early on: setting up a shared bank account to cover maintenance and other expenses (and agreeing every partner will make regular payments).

A separate account for the property draws a sharp line between personal and investment funds, and makes clear what's going in and what's going out, says Ms. DeShazer. "We discuss all [deposits and withdrawals], no matter how large or small. You also have to determine what profits will be reinvested versus withdrawn for personal use. In addition, how you will pay for any large debt, if the money is not in the account?"

Setting Up a Schedule

Then, of course, there's the matter of who gets to use the house when. This is an area that can be tough to set in stone ahead of time, because people's needs change so often. One solution: a spreadsheet with time slots that rotate on a schedule or are assigned at random.

Rod Smith, a broker in Myrtle Beach, S.C., says a group of 13 couples came to him with what he thought was a near-perfect plan to share a beachfront condo. Each couple was assigned by lot four weeks a year, which could then be traded or sold to the other members as they wished. Mr. Smith had them add to their operating agreement one week a year during which the apartment was shut for cleaning and repairs by a professional maintenance firm.

Some owners, like Ms. Tufts and her sisters, meet when necessary to hash out schedules. Now that her siblings have children of their own, the three-bedroom house is too small for everyone to be there at once. Last year, the three sat down to replan how they share the house.

"We're adapting the schedule to our lifestyles," says Ms. Tufts. "It's about having a system and mapping things out."

The sisters with children have priority during school vacations, and if there isn't enough space for everyone on a holiday weekend, the sisters are now in a position to rent a nearby cottage.

Barbara Reale, who shares a vacation home in Wall, N.J., near the Atlantic Ocean, with her sister and brother, says the siblings have worked out rules on when their children can be left alone in the house, and when they can use it with friends and without parents. "That's a source of potential friction," she says, so it's good to have an agreement in place.

Other parts of their dealings haven't been working out quite so well, she says. Ms. Reale says she has set up a shared online calendar that all the owners can view and update, as many pros recommend. "Nobody uses it but me," she says. That has led to a few weekends where her siblings have shown up with extra people, making for a tight fit in the six-bedroom house they inherited from their mother, she says.

Her brother, Aldo Reale, says he never uses the spreadsheet, and just picks up the phone when he needs to coordinate. Her sister, Nancy Gifford Humphreys, says she never uses it either. "I forgot about it," she says with a laugh. "I never use it. I like to text or use more personal forms of communication."

Houses held by the same family for generations can also present complex challenges, says Nancy Golden. Her great-grandfather, William Keeney Bixby, an early 20th-century industrialist, built the "Big House" on Lake George, N.Y., in 1902.

Today, about 250 heirs share the mansion and a smaller house on the grounds. Because of the number of relatives involved, the family formed a corporation to oversee sharing the place. A treasurer tracks expenses and proposes an assessment each year. Each family branch appoints a booking agent to assign time slots, which are rotated annually. Slots can be sold or traded to other relatives.

The corporation spends over $100,000 a year to maintain the houses, grounds, tennis courts, a boathouse and an 1890 electric launch. Ms. Golden, who has worked as a professional fundraiser, has been holding auctions each summer to raise an endowment for the property—selling everything from maple syrup made by a Bixby to time at a Bixby vacation home in Belize.

She has raised more than $500,000 over the past 10 years, she says, with interest from the endowment spent on capital improvements. "It's endless," Ms. Golden says. "They painted the north side last year, they'll do the east side next year," then the boathouse, the smaller house and start over again.

Mr. Green is a writer in New York. He can be reached at reports@wsj.com.

Home Sweet (Vacation) Home

Top 10 U.S. counties with the greatest share of vacation dwellings

County	Main Vacation Area	Median List Price
Vilas, Wis.	Land O'Lakes, Manitowish Waters	$239,000
Summit, Colo.	Breckenridge, Copper Mountain	435,000
Cape May, N.J.	Cape May	389,000
Worcester, Md.	Ocean City	275,000
Dare, N.C.	Kill Devil Hills, Nags Head, Cape Hatteras	359,000
Camden, Mo.	Osage Beach, Lake of the Ozarks	187,000
Summit, Utah	Park City	799,000
Carroll, N.H.	Ossipee, White Mountain Natl Forest (part)	246,400
Oneida, Wis.	Three Lakes, Minocqua	169,900
Pike, Pa.	Lackawaxen, Greentown	179,900

Source: Trulia The Wall Street Journal

Abundance of Riches

Private equity has raised more than it can spend

BY ANDREW BLACKMAN

HOW DOES IT feel to have a trillion dollars burning a hole in your pocket?

Ask the private-equity industry. It has been so successful in raising money from investors recently that it can't spend it fast enough.

The amount of money raised by private-equity firms but not yet invested—known as dry powder—hit a record high of $1.073 trillion globally at the end of 2013, according to data provider Preqin, an increase of $130 billion from 2012. The total has continued to grow this year, reaching $1.141 trillion globally as of the start of June.

"Private equity has been the best-performing asset class for many institutional investors over the long term," says Hugh MacArthur, head of global private equity at consulting firm Bain & Co. "In a world where many other investments, like credit-based investments, offer a very low yield, they're saying they need to continue to pursue those returns, so they're putting more money into private equity."

The influx of capital is good news for the private-equity industry, but it may not be such good news for investors. Some analysts in 2007, according to Preqin. And that is set to continue, as 90% of investors surveyed by Preqin in December said they intend to invest either the same amount or more in private equity this year compared with last year, and 92% said they would maintain or increase their private-equity allocation over the longer term.

One factor in those plans, says Bain's Mr. MacArthur, is that investors are reaping substantial profits from older private-equity funds.

The total amount of 'dry powder' hit a record $1.141 trillion globally at the start of June.

"Many investors are getting much more money back" from expiring private-equity investments than they put in, says Mr. MacArthur. "We fully expect this to continue in 2014."

Frustrated Shoppers

The problem for private-equity firms is that the same strong stock market that has already popular among investors right now, says BDO's Mr. Duran, meaning valuations for companies with strong profits and good growth prospects can be very high.

In December, BDO asked more than 100 U.S. private-equity executives what their most significant challenge would be in the coming year, and the most common response was pricing, cited by 39% of respondents, up from 15% in a similar survey a year earlier. Second on the list was identification of quality targets, cited by 34% of respondents, up from 28% in the previous survey.

Despite these challenges, deal activity has remained strong, with $171 billion in private-equity-backed buyout deals in North America in 2013, up 10% from 2012, according to Preqin.

Money Is Still Welcome

The bottom line for investors: Private-equity firms may struggle to find compelling investment opportunities in such a strong market, and this could make it harder for them to achieve the level of returns that investors have come to expect.

It appears unlikely, though, that the private-equity industry will start turning away investors.

It would be very unusual for