



## What Are Your Plans for Your Second Home?

Mitzi and Steve Deal of Charlotte, North Carolina, like to think of their mountain house as a gift to their family—one that will keep giving for generations.

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The Deals enjoy their 3,500-square-foot vacation home, which sits on 119 acres near Sylva, North Carolina, for weekend getaways and as a place where their family can gather for holidays and vacations. “The property is gorgeous, and the views are spectacular,” says Steve, 63, a gastroenterologist. “We’ve got trails to hike, and the cute little mountain town of Sylva is only about 10 minutes away.”



The Deals have three adult children and, so far, four grandchildren, all under three years old. “One day, we plan to host Grandpa and Grammee Camp for the kids,” says Mitzi, also 63, a retired schoolteacher.



“My goal is that my grandchildren will grow up playing together at the house, creating ties that bring them back,” says Steve. “I want them to have great memories growing up with their cousins.”

The property’s location works well for most of their family. The Deals can drive to Sylva in less than three hours. Their two daughters’ families live just a little farther away. And their son and his wife, who live in Miami, drop in as often as they can.

While drafting their estate plan, the Deals discussed several ideas for handing down the house, then decided to let their kids take part in the conversation. “We talked to our children and asked if the mountain house was something they wanted to keep when we are gone or if they wanted us to get rid of it,” says Steve. “The consensus was they wanted us to keep it.”

Like the Deals, many people hope their vacation properties will become a part of their legacy: a place to enjoy with family and friends now and somewhere their children and grandchildren can find comfort in the future.

## Assessing Your Estate Plan

People are often deeply passionate about their second homes, whether that home is a cottage on the beach, a lodge in the mountains, a farm in the country, or a cabin on a lake. That passion can sometimes cloud their decisions about how to include the property in an estate plan, says [William Blair](#), a CAPTRUST financial advisor in Charlotte, North Carolina. William helps his clients navigate these and other estate planning decisions.

“My goal is not to influence how clients structure their estate plans but, rather, to help them understand some of the unforeseen consequences that can arise from certain strategies,” he says. “A great estate plan considers the needs and circumstances of the beneficiaries and the nature and complexity of the assets.” [Mike Blair](#), another CAPTRUST financial advisor and William’s father, agrees.

Mike says more than half of his clients own second homes, and a few have two or three vacation properties. “Everybody wants their grandchildren to grow up together so that first cousins and second cousins have shared family memories,” he says. “It was easier in the past when people lived closer together, but now they often come together only for vacations.”

## Keeping the Peace

When deciding what to do with a second home, Mike says parents should ask themselves if leaving the property to their children will mostly improve or complicate their children’s lives. Do the kids want this home, or would they prefer to have the proceeds from its sale?

Passing down a vacation property can give your family roots, he says. “But the risk is that it can also create family drama. If you think that could happen, you may need to sell. It’s not worth fraying relationships.”



Most of the time, Mike says, things go smoothly, and parents typically have good intuition about how their second homes will impact family dynamics. “I’ve been doing this for 35 years, and there have been very few situations where it has gotten bad,” he says. “We try to deal with things before anyone can get terribly upset.”

Both Mike and William frequently talk to clients about ways to pass down their second homes. “Family is important to people,” William says. “The last thing they want to do is create conflict with the people they love because of their estate plan.”

## **What Heirs Can Expect**

To reduce conflict and make sure heirs are aware of what ownership entails, William suggests clients talk with their family about what’s required to maintain the property. “Most of the second homes our clients own are not revenue producing. There are property taxes, insurance, and maintenance expenses, and those can be high.”

There’s also time required for upkeep. “For many second homeowners, the time spent maintaining their home is a labor of love rather than a chore,” William says. “Their children may not fully understand the significant time required to maintain it. Additionally, when property ownership is shared among several people, the division of these chores and the burden of the maintenance costs can create rifts.”

Some heirs don’t think they’ll use the residence often. For instance, an adult child living in California might not want to spend their vacation time going to a beach house all the way in Georgia. But their siblings who live closer might use it more frequently.

“It can cause friction if one of the adult children barely gets to use the house but is still asked to cover an equal share of the expenses,” William says.

In other cases, heirs might not be able to afford to contribute. “We have one client who has a beach house where they spend a lot of time with their family,” William says. “Their adult children love the house, but they have very different financial situations and incomes right now.” The parents are concerned that if they leave the house to all three children, the kids may not be able to contribute equally.

“We also see significant conflict among adult children when they disagree about who can use the house when, who should pay for which expenses, and whether the house should be used for different activities, like parties or rentals,” William says. For instance, should the house be available for public rental when it’s not in use by family members? Should friends be invited? And if so, can they bring pets?



Honest conversation and group planning can help avoid these problems. “I had a client with a mountain home that had a spectacular view,” Mike says. “Only one adult child could afford to maintain it, so the family agreed that she would inherit the vacation house, and her two sisters would inherit the parents’ primary residence.”

The father asked his daughter who received the mountain house to give her sisters at least one week there each year. “It wasn’t a requirement,” Mike says. “It was a request.”

## **Paying It Forward**

Some clients also choose to set aside money in their estates to pay for second home maintenance, says attorney Todd Stewart, managing partner at Stewart Law P.A., also in Charlotte. “Almost all of the time, when people want to keep the home long term for their family, we talk about some sort of endowment to cover the necessary expenses, including tax bills, insurance, and maintenance,” he says.

Stewart works with one client who has two vacation properties—one at the beach and another in the mountains. This client plans to create a foundation that will turn his mountain property into a camp for kids. The beach house will be left to his children, with funds allocated for taxes and maintenance.

Stewart says most of his clients put their vacation homes into revocable living trusts. The trust holds ownership for the beneficiaries, usually the family. The clients have control over the property during their lifetimes, and the beneficiaries inherit the home when the client passes away.

The advantage of using a revocable living trust, instead of a will, is that the trust removes the home from court supervision and its associated costs and delays, Stewart says.

“An irrevocable living trust is another option and comes into play when we think the estate is large enough to be subjected to estate taxes,” Stewart says. In this case, the property’s value is based on the time when it is transferred into the trust, instead of years later when it may be worth more. “It takes the property out of the taxable estate,” he says.

Some people choose to place their second homes in a qualified personal residence trust. This tax-advantaged strategy allows the home to pass to the beneficiaries for less than its full economic value, Stewart says.

Another option is to put the property into a limited liability company (LLC). “The two main reasons we use LLCs for homeownership are liability protection and convenience in gifting,” Stewart says.

Liability protection is important if the home is going to be used for third-party rentals and there is a risk of lawsuits due to fire, theft, or injury.



“Sometimes, clients use an LLC to transfer ownership of the property to their heirs over time,” Stewart says. “Every year, the owner can transfer shares of the residence to their beneficiaries while still maintaining control.”

## Planning for Different Options

The Deals have tried to plan for a variety of scenarios for their mountain residence. The home is now in an LLC, and at their deaths, it will roll into a revocable living trust.

“We are leaving money in the trust to help care for the property, so the upkeep won’t be a burden for our children,” Steve says. “We made it so that, if they decide to sell it, they can, because we don’t know what’s going to happen in the future or where they are going to be.”

The Deals recently renovated the house, hiring an architect to create a more open floor plan so the family could be together in one room. They also added lots of windows to frame their wide mountain views. The house has a yard, a fire pit, a terrace for grilling, and a huge picnic table that seats their entire family of 12.

“Our intention is that it’s comfortable,” Mitzi says. “We have the world’s biggest sofa in the family room. Three people could sleep on it.”

“Having the whole family together is magical,” Mitzi says. “It’s a dream come true.”

Since their family may continue to grow, the Deals considered building a bunk house out back, but their children said they’d rather have an addition to the existing home, Steve says. “They told us, ‘We don’t want to be in separate houses. We want to be all together.’”

Steve and Mitzi were pleased to hear that. “It means they treasure the time together as a family as much as we do,” Steve says.

*Written By Nanci Hellmich*

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