Buying A Summer Home With Family | Biz Brain

By Karin Price Mueller | NJMoneyHelp.com for NJ.com
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Q. My sister and I are thinking of buying a summer home together. We would rent it out part of the time. What's the best way to do this? Do we need to start a company? – Sister

A. Buying a summer home is an exciting proposition, and it's common for families to buy together.

Having partners in a vacation property makes it easier to come up with needed cash for a down payment and to qualify for a mortgage. You also lower your ongoing costs - utilities, maintenance and repairs -- by sharing them with your co-owners.

"It can be a fantastic experience, providing you do your homework and plan accordingly, but it also carries risks," said George Kiraly, a certified financial planner with LodeStar Advisory Group in Short Hills. "You should go in to this potential venture with your eyes wide open."

Kiraly said you should start by having a serious talk with your sister about your respective financial situations.

Discuss your contingency plans if, for some reason, one of you can't keep up with the mortgage payments and other monthly expenses.

"Anyone can suddenly become unable to meet joint payments on a home. Individual circumstances - relationships, employment status, financial status and health status - may change over the years," he said.

Assuming you are both in good overall shape, financially and health-wise, next, you'll need to decide how you will legally own the property together, Kiraly said. This is governed by state and local laws. How you take title affects your rights to the property, so it's imperative you consult with a qualified attorney, he said.

Kiraly reviewed the most common forms of ownership:

Under "Tenants In Common," you and your sister both own shares of the property. Either of you can sell ownership of your share at any time, he said.
"If one of you dies unexpectedly, the deceased person's share passes to whomever that person named in her will," Kiraly said.

Then there's "Joint Tenancy," a form of ownership that includes a right of survivorship. When one owner dies, that person's share of the property passes automatically to the other owner. A property held in joint tenancy cannot be sold, given away, mortgaged or transferred to someone else without the permission of the other owner, Kiraly said.

Another option allows you to form a business entity, called a Limited Liability Company, or LLC.

With an LLC, the title would be in the business's name, and this would protect your personal assets from those of the business.

But if you intend to borrow money to purchase your summer home, Kiraly said, lenders may refuse to authorize a loan in the name of your LLC.

"They may require that you hold title to the property as individuals before they will agree to lend you money," he said. "Even if the lender allows you and your sister to purchase the property in the name of your LLC, you may be required to sign personal guarantees holding you both personally liable for the mortgage obligation."

Be sure to fully understand your lender's requirements and discuss them with your attorney.

You should also be aware of the potentially different tax ramifications with respect to forms of ownership, so make sure you enlist a tax pro to review the options.

Once you've agreed on an ownership structure, you'll need to figure out who will be responsible for what. Many unforeseen issues can arise in a co-owner arrangement, Kiraly said, so you should be prepared in advance.

For example, you both need to be on the same page as far as scheduling routine maintenance, repairs and even major projects.

"The National Realtors Association estimates that you should budget for 1.5 percent of the cost of your home to be spent on repairs and general upkeep every year," Kiraly said. "And if you are renting your summer home out to short-term renters, you might even need to budget a bit more as guests sometimes do not treat a summer home as nicely as they would their own home."

Also determine if you will jointly screen and interview tenants or delegate the job to one person. Either way, you'll want to find the most qualified tenant so a checklist for tenant criteria will probably be needed.

There's also the issue of usage -- who gets to use the house when. You will probably need to make adjustments for third parties, either your children and/or friends, Kiraly said.

He said sharing a home and a mortgage is a big commitment. It's important that you and your sister understand the obligations and risks involved with buying a property together.

Have an honest discussion with each other.

Kiraly said the best way to avoid problems is to buy a house that is well within your price range. Make sure both of you can easily afford the mortgage and other expenses associated with the home. You should also create an emergency fund for unexpected events, not only in terms of the house, but personally, too, such as for a job layoff or medical issue, he said.

"And take your time -- buying any good investment property requires due diligence," he said. "Don't be afraid to walk away from this potential venture if either of you are not totally comfortable."

Email your questions to Ask@NJMoneyHelp.com.

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