THE 2006 FORECAST ISSUE

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ERSONAL FINANCE

YOUR GUIDE TO MAKING MONEY WORK

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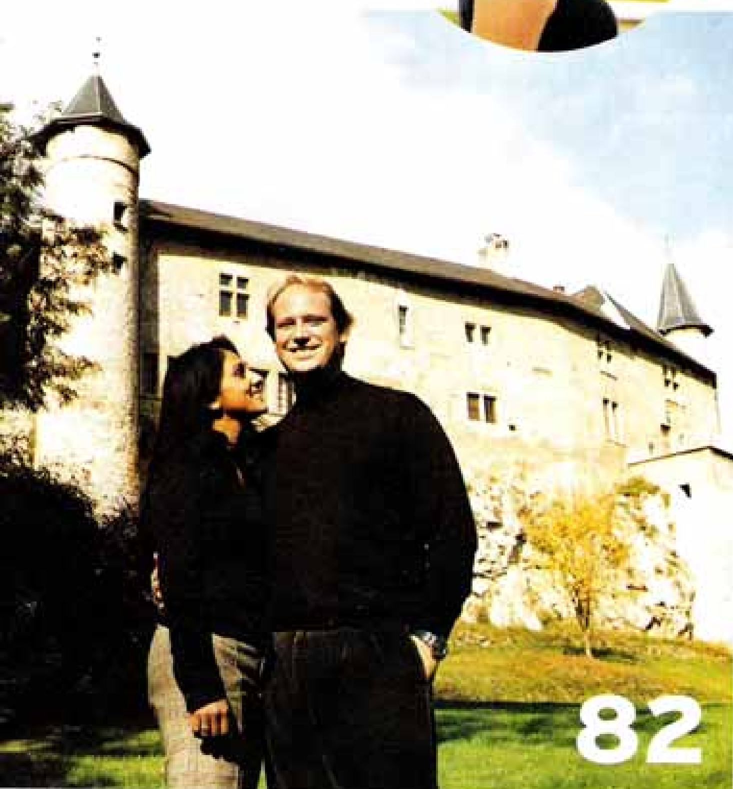

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ON THE COVER: Photograph by Thayer Allyson Gowdy. Wardrobe stylist: Penelope Pattee. Hair and makeup: Paula Abraham. On her: Hugo Boss shirt and pants, Liz Claiborne necklace. On him: Hugo Boss suit and shoes, Banana Republic shirt. Location: The Pavilion at Rivergate Tower, Tampa.

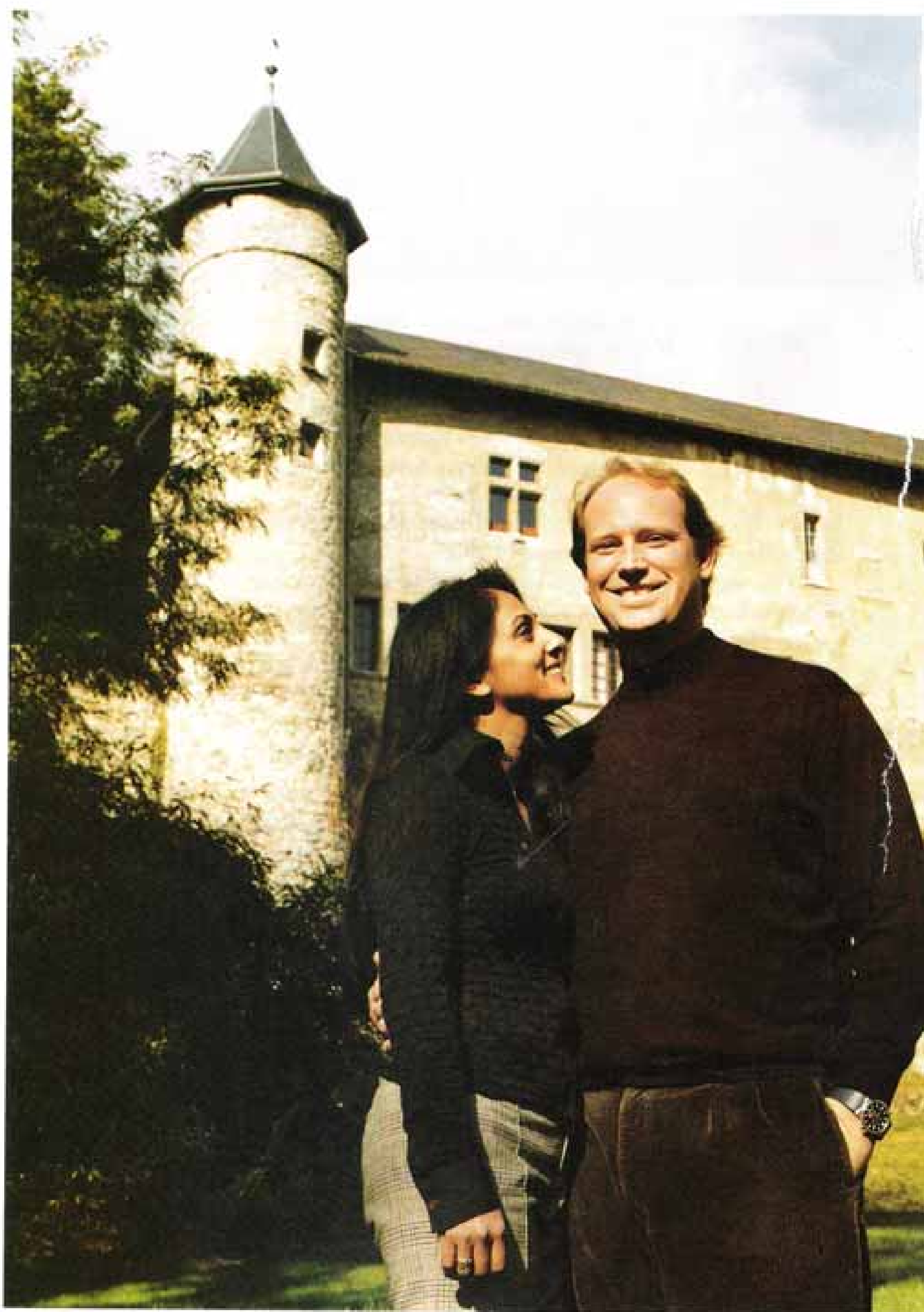
PREVIOUS PAGE: STEVE BRODNER; BOMBAY: RAGHU RAI/MAGNUM PHOTOS; SHANGHAI: PATRICK ZACHMANN/MAGNUM PHOTOS; ANTONIS ACHILLEOS. THIS PAGE: AMANDA MARSALIS, JESSICA ANTOLA, RENÉE COMET.

AS THE median price of a vacation home approaches the $200,000 mark, it's tempting to consider inviting family members or friends to help you swing a deal. Not only do you know and trust them, but you also wouldn't mind spending a week in their company.

But a partnership to buy a vacation home can easily turn sour—as Brett Matthews discovered when he invited his best friend from high school to go in with him on a condominium in Destin, Fla. Matthews, 38, an industrial-equipment salesman from Atlanta, figured they'd need to invest a total of about $44,000 in cash to buy and remodel the condo, which cost $220,000. But his buddy was chronically late coming up with the money to renovate, so a frustrated Matthews got his friend to buy him out. "I figured that if we had made it this far as friends, we could survive anything," he says. "Nothing is further from the truth."

The key to making a partnership work (and avoiding many an awkward Thanksgiving dinner) is to put business before pleasure by drafting an ownership agreement, something Matthews neglected to do. "Family and friends assume they can work everything out, so they don't face the hard issues," says Andy Sirkin, a San Francisco lawyer who specializes in ownership agreements.

Such an agreement should specify when each co-owner gets to stay at the house, as well as how they'll share costs



A family-friendly

REAL ESTATE | When teaming up with relatives or friends to buy

Sukeshi and Chuck O'Neal gave Chuck's parents an ownership stake in their French château in return for overseeing renovations.

and responsibilities. Co-owners generally get exclusive rights for specific times, or they pay for the time they use. The agreement should divvy up holidays and peak seasons and spell out privileges given to an owner's family members, friends and guests.

How often you get to use the house is generally determined by how much money you put in. But some co-owners are creative. Chuck O'Neal, 39, a partner in a Laguna Beach, Cal., private-equity firm, paid $850,000 for a ten-bedroom château in the Savoie region of France and spent a substantial amount to renovate the estate, built by Benedictine monks in 1032. O'Neal's parents oversaw the repairs; his dad managed the craftsmen who did the restoration work, while his mother, an artist, helped his wife, Sukeshi, with interior design. In return for his parents' sweat equity, O'Neal drafted an agreement to give them an ownership stake in the property, which is available for rent (www.chateausp.com).

Sweat the small stuff. Drafting an ownership agreement costs between $1,000 and $3,000. In addition to big-ticket expenses, such as the mortgage, taxes, insurance and utilities, you'll need to agree on assessing outlays for repairs and furnishings—right down to sheets, silverware and shelf liner.

Owen Dykes, a 35-year-old mortgage broker from Atlanta, teamed up with his sister and two friends to buy a vacation cabin in Blue Ridge, Ga., for $295,000. In their ownership agreement—drafted by one of the partners, a lawyer—they each agreed to kick in $700 a month toward the mortgage and maintenance, and also stipulated that all co-owners must approve any expense exceeding $300. In addition, the group has veto power over any decorations a co-owner may want to add.

Despite their attention to detail, Dykes and his partners have experienced their share of tension. After two of the partners moved most of the furniture into the cabin, says Dykes, "we had people saying, 'I've driven a U-Haul for the past two weeks to unload all of this. You can at least go to Target to buy the towels.'" That kind of dispute can shred a partnership, says Sirkin. He recommends putting in writing details that may seem petty, such as who will clean the house and which pets are allowed on the property.

Rent it out? One big financial decision you'll have to make is whether to rent out your home. Only 14% of vacation-home buyers rent their property, says the National Association of Realtors, and partners don't always see eye to eye. One may want rental income, while another would like to keep the home as a private getaway. "People are weird about their stuff," says Christine Karpinski, author of *How to Rent Vacation Properties by Owner.* If you're undecided, at least look up the rents for comparable properties and find out whether there are any restrictions.

Renting out your home can help defray your costs, but it also has tax consequences. You may be allowed to deduct expenses beyond interest and taxes, and even generate a taxable loss, depending on how frequently you use your home and how often you rent it out. The rules are complicated, so

VACATION home

a retreat, put business before pleasure. *By Thomas M. Anderson*

PHOTOGRAPH BY JESSICA ANTOLA

expect to consult with an accountant. Regardless of whether you rent, tax deductions should be divided among the co-owners in proportion to their stake in the property.

Co-owners who rent out their property often form a limited liability company to protect themselves in case of a lawsuit. You can set up an LLC or make a similar arrangement with a lawyer when you draft an ownership agreement. In addition to homeowners insurance for your vacation home, you might also want an umbrella policy to supplement your liability coverage.

Exit strategy. If some day you'd prefer to travel farther afield rather than head to the same locale every year, your ownership agreement should give you a clear way out. And you and your partners should also deal with the prickly considerations of death and divorce.

To minimize inheritance disputes, each member of the group should have an updated will or trust, and the ownership agreement should be binding on heirs. You should also include a buyout provision for new partners, or for original owners who want to leave.

Dykes's group, for example, plans to review their agreement every five years. They also have a buyout arrangement under which a partner who wants out and those who stay would get separate home appraisals. The remaining investors would pay the partner who leaves in cash, based on an average of the appraisals.

Limited options. It's trickier to bail out of a partnership without a buyout agreement. In general, you can sue for partition, forcing the property to be sold and the profits divided among the partners. Partition orders usually set a price if partners want to buy out a disgruntled colleague.

But partition lawsuits are expensive and rare. It's usually less costly and more profitable for partners to decide among themselves when and at what price they want to sell their property. Rather than settle the matter in court, it's generally better for the parties to split the difference between disputed buyout offers or to come up with a figure based on separate appraisals.

Find a resolution everyone can live with, recommends Brett Matthews. When his partnership with his high school buddy unraveled, Matthews persuaded his friend to buy him out a year after purchasing their condo. It was appraised for $370,000 and Matthews made a $76,000 profit. K