THE FAMILY BUSINESS CONSULTING GROUP

Sharing Family Cottages, Lodges and Resorts: Part One

By: Chris Eckrich, Ph.D., and Stephen McClure, Ph.D.
The Family Business Consulting Group

Business owning families often share ownership of family lake or beach homes, or historic home places that have been in family hands for years or generations. These assets can evoke strong emotions and positive memories, and produce feelings of connectedness to loved ones. They also can evoke conflicts over funding, use, abuse, décor and other matters. Sometimes these disputes get so serious, they threaten the family business. Consequently, in many ways, managing family properties requires the same key elements needed to manage a family business: purpose, structure/formality, budgets and trust.

Consider the purpose of a lake cottage a family's place to relax, connect with each other, and have fun. This is the unspoken purpose for many benefactors. Yet purpose needs to be explicit options vary greatly depending upon the purpose. If the purpose is for relaxation and connection, the family will likely hold the property indefinitely. If the property is meant to be an investment, then a run up in property values may lead to sale.

Just as family businesses need more formality as the family grows, a lake home requires organization to accommodate generational transition. Consider the challenges presented. From earliest memory, it starts out as mom and dad's lake home. In our experience, the senior generation usually manages the home and the junior generation accepts that it remains their parents home. Threats to harmony are avoided or nipped in the bud by parental intervention, or through respectful deference that the children pay to the parents.

Status quo is maintained until the parents decide (or have) to pass independent control to the next generation. At this point, many families find themselves without a structure to replace parent leadership for achieving the unspoken mission of relaxing, connecting and having fun. How will decisions be made? Will it be democratic with everyone involved in all decisions or, as many larger families do, representative, where some individuals speak for others? What happens when the rules are not followed, or what exceptions are permissible when individual circumstances make it impossible to meet a financial obligation, families are most likely to avoid destructive family tension when all involved have a clear understanding of how decisions will be made and conflicts resolved.

The following is an example of a lake cottage management structure where three siblings share ownership and management:

- **Decision Making:** Siblings have one vote each. Spouses do not vote but are present at meetings. Majority rules.

- **Meetings:** Group meets once a year for conducting the business of the cottage.

- **Celebration weekend:** For siblings and spouses only, no children. Second weekend in June.

- **Usage:** Names drawn randomly to determine first choice of weekly usage, rotate in subsequent years, trades allowable. July 4th weekend is an all-family weekend.

- **Governance:** Janet serves as president and facilitates meetings. Rob serves as treasurer and manages budgets, payables and receivables.

- **Budget:** Annual assessment ($5,000 per sibling, perhaps funded from trust distributions) for taxes, maintenance and repair.

Families use annual group meetings to decide upon rules of engagement, consider exceptions or changes to the rules, and resolve how they will hold all accountable. Many use the annual meetings to rotate roles (i.e. president, treasurer) thus fostering involvement, though two to three year terms can provide additional stability.

A major challenge arises when some heirs are less interested in or able to use the property than others, or lack financial resources for its upkeep. Early generations do their heirs a favor when they provide funding, usually through trusts, to maintain the property. When this option is not available, some families adopt usage fees to cover operating costs. Those who use the property most contribute most to its upkeep.

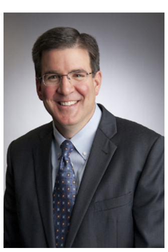
The situation gets more complicated when some see the property as an investment (and want to cash out), and others see it as a place for connecting and relaxation. These differing visions will stress the family, which is why we so strongly recommend that the granting party articulate purpose first, and that it be reaffirmed often.

Specific written procedures for exiting ownership promotes planning and reduces awkwardness. Family health enhanced when members are not required to share a property as a symbolic ticket to family membership. It must be okay to withdraw or politely decline an invitation to participate in the first place. Independent appraisers can set buyout prices to ease the tension.

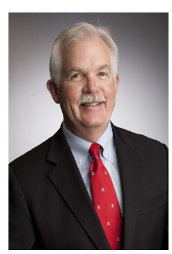
Written rules promote fairness, which in turn promotes trust among family members. Rules should be designed to preserve and promote the property's purpose, and minimize needless conflict. Many families feel uncomfortable, even unnatural, with rules governing the use and maintenance of shared properties. Paradoxically, trying to avoid relationship discomfort by establishing some basic rules actually increases the risk of damaging those relationships by leaving expectations ambiguous.

Sharing family properties to promote family glue requires increased management effort with each succeeding generation. An extended family of well-connected cousins provides grounding and identity, the continuation of which can be facilitated by the cabin in mountains, the retreat lodge on the lake, or the beach home. A property that is preserved into the third generation can help promote relationships among those who might otherwise cease to put forth the effort.

Our family business clients have found that well-crafted vision statements, shareholder agreements, and codes of conduct are key ingredients in preserving successful businesses. These same support structures allow families to manage shared vacation properties across generations.



Christopher Eckrich, Ph.D. is a Principal Consultant with The Family Business Consulting Group, Inc., and can be reached at eckrich@thefbcg.com or 260.436.0045.



Stephen L. McClure, Ph.D. is a Principal Consultant with The Family Business Consulting Group, Inc., and can be reached at mcclure@thefbcg.com or 208.342.7775.

To learn more about The Family Business Consulting Group and how we serve families like yours, call us at (773) 604-5005 or email us at info@thefbcg.com. There is absolutely no obligation.

Reprinted from The Family Business Advisor®, A Family Business Consulting Group, Inc.® Publication

The Family Business Advisor