

Family Compounds: A Tale of Two Properties

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Homes are a place where hopes and dreams are formed, where accomplishments are celebrated, and where we feel sheltered through tough times. Many of us have fond memories recounting playing in the yard, marking our height with pencil lines in the door jams, holidays spent together around the fireplace, and celebrating closely held cultural traditions. Family homes are one of the few investments that hold not only significant financial value but also tremendous sentimental value.

Many wealthy families have the goal to keep a particularly meaningful property in the family for future generations to enjoy and form their own memories in. However, it is challenging to execute this effectively.

In addition to drawing on the experiences of our client families, we benefit from the experiences of some members of our Ballentine “family.” Here, we’ll be sharing stories from two of our colleagues. While these stories have divergent outcomes, they both offer valuable lessons for families seeking to preserve their beloved properties successfully.

The Historic Family Farm

Our colleague grew up as the seventh generation to be raised in their historic farmhouse in the Boston suburbs. Ancestors in the mid-1700s left the city for wider spaces, long before it was in vogue, and established neighboring farm properties. They raised crops and livestock from these farms, started their families, and fought as minutemen in the Revolutionary War. Primogeniture was an overall value in the family, with the properties being passed down to the firstborn son of each successive generation. This approach worked successfully for over two centuries ... that is, until it didn’t. This is where the story takes an unfortunate turn.

Generation 5 (our colleague’s great-uncle) inherited the estate and leased it to Generation 6 (colleague’s mother) after downsizing to a smaller home on the homestead as he aged. Having no children of his own, the great-uncle appreciated witnessing his niece and her family enjoy the home, as he and so many previous generations had. The family’s express intent was for the property to remain in the lineal bloodline of the initial settlers. However, this value was never formalized in legal documents. At the great uncle’s passing, the home and farmland were bequeathed to his surviving wife (colleague’s great aunt), thus outside the bloodline. The great-aunt knew and respected her husband’s wishes and had a basic will prepared, leaving the property to her late husband’s eldest niece (colleague’s mother), who had been living in the home.

Sadly, as the great-aunt aged, she began to experience cognitive decline. In this process, a distant and opportunistic niece of hers reemerged into her life. At that point, she began to financially abuse the aging woman, and convinced the great-aunt to amend her estate plan, bestowing the assets to her. At the great aunt’s passing, the title to the property was transferred to the unscrupulous niece and was listed for sale.

Sadly, the property's market value was such that no family member could purchase it.

The silver lining to this story is that the home was sold to a neighbor who has appreciated the property and made great efforts to preserve its character and history. The great hope is that someday, our colleague will have the opportunity to repurchase the home and offer future generations the chance to enjoy the property that is so rich in local history and family memories.

The Lakeside Camp

The fifth great-grandfather of our colleague was a successful entrepreneur in the early-to mid-19th century. After years of success in business, he pursued a new venture by acquiring land in the wilderness to grow hops and source clean water with the idea of making his own beer. This original mission was foiled by a shorter-than-anticipated growing season and difficult access. While the business mission floundered, his children fell in love with the property for other reasons. At their behest, he left them the property, whereupon they established their own "camps" alongside the lake. Over the years, the family expanded, and more camps were added. As the family grew, so too did the complexity of managing the property. The challenges of continuity, generational estate planning, and governance became more pronounced.

In response to increased complexity, the family created an unincorporated homeowner's association. The HOA served to organize the family, provide a framework for common services, and a body of rules for governance. The HOA was augmented by a family council consisting of 9 family members, including the 5 officers of the HOA, with each member serving for up to 2 three-year terms. This family council assumed responsibility for day-to-day decisions and developed a strategic plan for the future of the property. Additional legal entities were created to endow part of the land ownership.

Over 170 years later, the family compound encompasses over 225 family members from all over the country and from all walks of life. While there are always management challenges, the bond within the family and with the land remains strong and a reminder of what is important in life. The progress that has been made results from a family "team" effort over multiple generations.

Lessons Learned

Some families we are born into, some we choose, but in either case, there are both joys and challenges in navigating these relationships. That is made even more complicated when finances and evocative properties are involved. Here are the lessons we have learned from our experiences and how we help clients plan for success:

- **Clearly define goals for the property and the family.**

Often, the home itself is rarely what is intended to be preserved. Rather, it is the memories the house holds and the opportunity to promote family togetherness as new experiences are created for forthcoming generations. It is critically important to articulate the goals for the property and the family members it will host.

Visualize a time many years into the future. What does success look like? What will make the family happy in the long run? Will it promote togetherness or be a source of contention?

- **Utilize legal structures to maintain ownership within the family**

Mike Tyson once famously said, "everyone has a plan until they get punched in the mouth." The primary goal of the Historic Family Farm property was to ensure ownership remained with the direct

lineal descendants of the original settlers. Unfortunately, this plan failed once a devious outsider manipulated a vulnerable family member for their own profit. (For more on protecting against financial exploitation, read our article [*We \(Actually\) Care a Lot*](#))

The best way to safeguard against outside ownership of the property is to make use of legal entities, such as LLCs and Trusts. Your advisor, in concert with your attorney and CPA, can help to identify the appropriate structures based on your objectives. Not only do these arrangements protect the ownership, but they also lay the groundwork for important governance issues discussed below. If certain family members would prefer not to partake in ownership and use of the property, an exit path can be charted in advance to ensure the interest cannot be sold outside the family.

In addition, utilizing LLCs and Trusts can offer an attractive wealth transfer opportunity. When transferring ownership of valuable real estate to multi-generational trusts in the form of LLC membership units, the value of the gift can benefit from certain permitted discounts. In other words, more wealth is transferred than the amount of lifetime exemption that is utilized. Now in a rising interest rate environment, Qualified Personal Residence Trusts (QPRT) become another attractive option for conveying ownership in a tax-efficient manner.

- **Governance**

Remember when your children were young, and they would squabble over seemingly inconsequential issues? As a result, you may have put some rules in place to create structure and a sense of fairness and clarity. The same principle applies to shared real estate. To sponsor family harmony certain ground rules need to be set in motion. Carefully revisit your goals for the property and the family, and consider:

- ◇ Schedule for the use of the property – e.g., who maintains the calendar, ensuring a fair reservation process for peak times, use of the property for weddings and events
- ◇ Behaviors and expectations – e.g., use of boats and other equipment, fridge cleanout and trash removal when leaving, pets, use of tobacco or other substances on premises
- ◇ Decision making – e.g., who decides on repairs and improvements, what scope of repair warrants family discussion, who is the primary contact responsible for convening the group for discussion
- ◇ Essential services – e.g., emergency contact for utilities and storm preparedness, cleaning, grounds maintenance
- ◇ Stewardship – e.g., ecological impact, preservation of historical character, maintaining local aesthetic

- **Financial sustainability**

Recently, my wife and I went for a walk and noticed a historic colonial house built in the early 1700s. The owner was outside with his dog, and we complimented his beautiful home. He replied, “Thank you, all I ever do is work on it!”

Luxury and historic homes alike can be an astonishing sight to behold. They also require an equally astonishing amount of upkeep. In addition to ongoing “carrying costs,” such as property taxes, utilities, and routine maintenance, the longer the home is held, significant capital improvements and renovations will be needed. These financial needs are frequently a key source of contention for family members. How are these decisions made? How much does each party contribute? What

happens if a family member cannot afford to contribute to the cost of the home?

We have found that, where feasible, the best strategy is to endow the property with the appropriate financial resources to support its projected funding needs. We help our clients determine what those funding needs are likely to be and identify the appropriate structures to steward these resources.

- **Be adaptable**

The world looks and operates very differently than it did just a few decades ago. In much the same way, life will probably look different in the future than it does today.

The Lakeside Camp family council, over time, met to discuss how the needs and desires of future generations might differ and how the family model should evolve to promote its continued use and enjoyment.

Prior generations enjoyed the wilderness simplicity of kerosene lamps and no telephones. Today, remote work and on-demand jobs create a need for better communication and actual electricity (solar based and not grid-tied). What was once thought to be sacrilegious becomes possible with careful conversations and active stewardship over time.

In any plan, it is imperative to maintain a sense of flexibility. Structures and governance may need to change. The property may need to adapt to suit its changing needs. In some cases, the notion of a shared family estate may need to be scrapped altogether if it is not promoting harmony and togetherness.

They say, “home is where the heart is,” and we couldn’t agree more. If you are contemplating how you might set up your property to be enjoyed by future generations, we stand ready to guide you through the process and help you navigate these important decisions.



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