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BUSINESS DAY

How to Jointly Own a Home and Still Be Friends

Your Money

By HILLARY CHURA APRIL 12, 2008

REAL estates prices have fallen almost everywhere. Interest rates have declined. It would seem a good time — at least for those who resisted the temptations of easy credit in the last few years — to buy a vacation home.

But lenders have toughened the rules on mortgages, making second-home purchases that much harder.

One option is teaming up with friends or relatives. The arrangement can prove a boon to the pocketbook as well as the relationship but — as with any financial arrangement — only if ground rules are established before the first check is written.

The first issue everyone should agree on, according to real estate agents and buyers, is that owners should think of using a house not as a way to make a quick profit but for its intended purpose — as a getaway.

Even then, there is much to negotiate.

Daniel Shoemaker and his wife, Elizabeth, along with two other couples decided to buy a beach house in Ocean City, N.J., four years ago. All three families had wanted their own place, with a view, prime location, rides and the boardwalk nearby and walking distance to major attractions. But, individually, that was out of reach.

So the Shoemakers, who live near Allentown, Pa., and the others, who live near Philadelphia, went in together on an $870,000 three-bedroom three-bath home.

“Everyone said we’d be choking each other within a year,” Mr. Shoemaker said. “There is give and take. Even when you know someone really well, it takes more adjustment than you think and more compromise than you expect. You’re thrust into an environment that you have to talk to each other and make compromises all the time — almost weekly — whereas before you just saw each other a few times a year. You get more skilled at politics, more sensitive to other people.”

Save for arguments early on (how to decorate, when to toss old bedspreads, whether phone service should be disconnected in the off-season), everything has gone smoothly, Mr. Shoemaker said.

One reason for the relative harmony is because many issues were hashed out ahead of time. The families agreed to keep the house for at least five years, rather than flip it, unless someone lost a job or ran into financial hardship; to split the costs three ways; that one person would pay the bills (and get an annual $500 credit in return); and the home would be rented from early June until the end of September, with most weeks at $3,350. Each owner could use the house every third week in the off-season free, but during peak times, they would have to rent it — but at a 20 percent discount.

If joint ownership arrangements go well, investors can have a larger and better home than they could afford on their own. Though their time at the home is limited, many people with a vacation hideaway say they do not spend all that much time there — regardless of whether they own it solo or with friends.

Lawyers, real estate agents and mortgage experts say most people who buy vacation or investment property with someone else tend to do it with a relative. Arrangements generally turn out well, but there can be horror stories: one homeowner dies, and that person’s portion of the investment goes to a co-owner rather than to the deceased owner’s relatives; someone loses his stake in a $1 million home when a co-owner is sued; an owner loses his portion of the home when a co-owner defaults on the mortgage.

The best way around many issues is to buy the property within a limited liability corporation, or L.L.C., many lawyers say. This legal entity is relatively inexpensive to set up and maintain while protecting owners' individual assets, the lawyers say. In case of lawsuit, only the property itself is at risk.

Garrett Sutton, a lawyer and an author of "Real Estate Loopholes: Secrets of Successful Real Estate Investing" (Warner Business Books, 2003), recommends having an exit strategy from the beginning.

"Not that many people do it at the start because they are optimistic," Mr. Sutton said. "They think things will be fine. Initially, people frequently don't want to deal with these issues. But then, if things go sour and families start to argue and there is bad blood, it's very difficult to get a sell agreement signed."

Russell Hanf, a lawyer who lives in St. Helens, Ore., bought a vacation property in Rocky Point, Mexico, with law school friends. The $450,000 two-bedroom two-bath oceanfront condominium with a balcony should be finished by the end of the year. Each of the three partners has already paid the $60,000 first installment. The friends have nothing in writing now but plan to do so before the unit is finished. The document will include how much time each person can spend there, what happens when someone wants to sell, when the property will be rented and how expenses will be split.

"If you buy property with friends, you better do it with money you can afford to lose," Mr. Hanf said. "You don't want to put all your eggs into a basket with friends in case it doesn't turn out well."

Buyers need to know — and abide by — their limits, said Neil Garfinkle, a Manhattan lawyer with offices in Long Island and California.

"When you buy a place to live, there is emotional baggage," Mr. Garfinkle said. "I very strongly suggest that when you buy for investment, you set guidelines out such as 'I will spend this amount. After that, I'll walk away.' When you buy a vacation property, those rules apply even more."

Donald Vaughan, a real estate lawyer in Boston, said difficulties can arise after a few generations, when ownership is divided among children and grandchildren who may not be as close — either emotionally or geographically — as the original owners. The situation can lead to problems over how much money the property costs or how time is divided there.

Scott Yonehiro, a mortgage planner and senior board member at First Security Lending in Burbank, Calif., warned that resentment can build if one partner thinks another has invested less physically or financially. “Remember that if emotions are left unchecked within a business agreement, very few people can enrage a person like a close family member or friend,” Mr. Yonehiro said.

Dean Trevelino and Genna Keller, longtime business partners, with their families bought a lot in Alys Beach, a new hurricane-resistant development of family villas and courtyard homes in Florida’s Panhandle in 2006. The two families, both from Atlanta, are building a 2,500-square-foot three-bedroom three-bath home with a plunge pool in the courtyard. It should be complete next month and is large enough to accommodate both families simultaneously. Mr. Trevelino and Ms. Keller, who own a public relations firm, plan to stay there five to six times a year as well as use it for business purposes and rental income.

Though the Trevelinos own a vacation home in the mountains of Georgia, they like Alys Beach as well.

“This leverages both of our resources,” Mr. Trevelino said, “without having us burden ourselves financially.”

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