LAW STEIN ANDERSON

2601 Main Street, Irvine, CA 92614
(949) 501-4800 | Info@LSALawyers.com

Sun, Sand, and Succession: Estate Planning Tips for Your Vacation Property

A vacation property can be one of the most valuable things you can pass down to your loved ones, from both a sentimental and financial standpoint.

However, mixing money and family can be tricky. Without a well-thought-out strategy for the ownership transition, hard feelings and disputes could arise, and the vacation home could be used in ways you did not intend.

Beyond family dynamics and legacy objectives, transferring a vacation property to the next generation also has legal and tax implications that need to be addressed in an estate plan.

Vacation Homes Are a Store of Memories—and Wealth

It is that time of year when you and your loved ones may be preparing to spend time on the beach or in the mountains at the family vacation home. Around 5 percent of all housing units in the United States are second homes. There was a more than 16 percent surge in new vacation home purchases during the pandemic[1]. From humble cabins and beach cottages to luxurious mountain estates and lake houses, vacation homes are owned by an estimated 4 out of 10 Americans[2].

Many second homes are dual-purpose, serving as a family gathering spot as well as a revenue source. Sites like Airbnb and VRBO have made it easier to rent out property. In 2023, the US short-term rental market, comprising more than 785,000 individual hosts, 2.5 million available listings, and 207 million nights stayed, generated approximately $64 billion in revenue.[3]

Vacation Home Estate Planning Considerations

As you clean up your vacation home and prepare to welcome your children, grandchildren, and other family members for another season of memory-making moments, estate planning may be a distant thought—if it is even on your mind at all.

But ensuring that the home remains a place for the family to gather for generations to come requires addressing it in your estate plan now, while you still own and control it. Here are some points to consider as you balance finances, feelings, and fairness in your vacation home estate plan:

- Are you still spending time at the vacation home? This can affect whether you pass the home to your loved ones now or after you die. It is not an all-or-nothing proposition, though. You could establish what is called a life estate that allows you to transfer the vacation home at death but continue using it during your lifetime.
- Who is interested in the property? There might be interest among all your children in keeping the property, only one child who is genuinely interested in owning and using it, or nobody interested in it at all.
- Do you want to set limits on what can be done with the property? Think about whether the vacation home can be used as a rental, if family members should have the right to sell the vacation home or their interest in it to people outside the family, the conditions for one family member buying out another's interest, and other limits on what can and cannot be done there.
- How compatible are your loved ones? If everybody gets along and has similar income levels, you might not be concerned about their ability to equitably divide ownership rights and responsibilities. But disagreements could still arise over things like who is responsible for paying for upkeep, taxes, and insurance, and who can use the property—and when. And the more family members there are who have a right to use the home, the greater the potential for conflict.

These big picture estate planning issues for a vacation home can inform specific strategies such as the following about how to pass the property down:

- Selling the home to a family member
- Gifting the home to family during your lifetime
- Passing down the home to loved ones through the probate process via your will
- Transferring the property outside of probate, either while you are alive or after your death, with a trust or a transfer-on-death or pay-on-death deed (if your state recognizes them)
- Creating a limited liability company (LLC) or family limited partnership (FLP) to own the vacation home Each of these strategies has a different set of pros and cons that you should further discuss with an estate planning lawyer.

Talk to a Lawyer About How Best to Keep a Vacation Home in the Family

Family can be complicated. Adding a treasured family vacation home to the mix only adds to the complications. We recommend talking to your loved ones about the vacation property. Once you get answers to questions like who wants the vacation home, how much they might use it, and if they can take on ownership responsibilities, reach out to us to create a strategy that aligns with your personal circumstances and objectives.

---

1) Theresa Landicho, 17 Second Home Statistics Every Investor Should Know in 2024, Fit Small Bus. (Feb. 13, 2024), https://fitsmallbusiness.com/second-home-statistics.

2) Andrew Lisa, 40% of People Have Vacation Homes: Where You Can Find One for Your Budget, GoBankingRates (June 16, 2023), https://www.gobankingrates.com/investing/real-estate/where-to-find-vacation-home-in-yourbudget.

3) 2023 Short-Term Rental Statistics You Need to Know, AirDNA (Jan. 28, 2024), https://www.airdna.co/blog/2023- short-term-rental-statistics-key-numbers-to-know.