

Property Management: Advisors Maintaining Family Compounds

BY KATHY KRISTOF
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When ranking the top niches in wealth management, specializing in maintaining family compounds is not likely to break the top five.

But if a financial planner happens to work near the scenic coast of Maine — or, for that matter, in any of the many hamlets nationwide where several generations share a single piece of real estate — it's a niche well worth mining, says Scott Upham, managing director of Cribstone Capital Management in Augusta, Maine.

Whether the jointly owned property is a rustic camp or a multimillion-dollar estate, the concerns surrounding the management and use of these properties are often complicated and fraught.

The greater the number of heirs, the greater the complexity. A skillful and imaginative planner can shine in these situation.

'CREATING SOLUTIONS'

"Creating solutions for families to these conundrums creates lasting impact and solidifies relationships, reinforcing that the advisor is aligned with the family's interests, rather than their own," Upham says. "It establishes you as a different kind of advisor."

He estimates that half of Cribstone's clients share seasonal properties, many of which are not expensive. Some are rustic little cottages or hunting lodges more cherished for their memories than their economic value, he says.

But other properties can account for a good portion of a family's net worth. Either way, the maintenance, use and carrying costs can cause serious family rifts if not handled carefully.

A MISSION STATEMENT

Upham's first step in the process is to have the heirs design a mission statement for the shared property.

Much of the statement will be designed with the aim of answering these questions:

1. Does the family want to maintain it for their use into perpetuity? If so, how will the calendar be

kept?

2. Should the property be developed or redesigned?
3. Who will be the point person handling the regular bills, such as property tax and insurance?
4. How will costs and labor be divvied up among family members?
5. If one or more owners are unable to use the property, either because they've moved away or have lost interest, should those family members be compensated in some way?

Naturally, even developing the mission statement can be a hornet's nest. For example, Upham worked with one family in which three siblings co-owned a largely undeveloped tract on an island; the rest of the island was owned by the state. Two of the siblings had identical wishes for the property, which was appraised at \$1.5 million.

The family wanted the property to be available for family use, but also left undeveloped to preserve for future generations the natural habitat that existed throughout the rest of the island. The third sibling, however, simply wanted to cash out. The relatively high property tax assessments were out of proportion to the amount of time he used the property.

Upham thought the ideal solution would involve buying out the one brother while also getting a conservation easement on the entire island. The conservation easement would put development restrictions on both the family and the state, creating a parkland preserve that could be used solely for camping and nature.

This strategy involved working with the Maine forest service and parks and recreation officials to forge a deal. The state ultimately agreed.

And because of the development restrictions, the value of the property dropped dramatically, cutting the family's tax bill to less than one-quarter of the former amount. Although the family planned to buy out the third sibling, he dropped his objection to keeping the land once the tax obligation became negligible.

It took more than a year to complete the deal, but Upham believes the family got off easy. After all, if it was this difficult to work out an arrangement for three siblings, imagine what it would be like if left to the next generation.

"These three have 14 children between them," Upham says. "If they couldn't come to an agreement now, imagine what it would have been like when they were gone."

BEST CIRCUMSTANCE

The best circumstance is when families make decisions about shared real estate when the first generation — the original owners of the property — are alive, Upham says.

That allows the parents to divvy up assets among interested siblings and set up trusts and/or limited liability companies that can own the property, as well as ensure the assets are sufficient to provide for repair and maintenance.

Another client, who owned a 100-acre farm and an oceanfront mansion, structured a deal that gave three of five siblings the oceanfront property, while splitting off the farm for a fourth sibling.

That sibling built a home on a portion of the farm for the fifth child, who has special needs. The arrangement demanded multiple trusts, including a special-needs trust for the fifth sibling, who would lose federal benefits if he held assets on his own.

HOW TO CHARGE

How do planners charge for such complex and time-consuming jobs? Upham says it's just part of their service, and it may not make sense to view these duties through an hourly-rate lens.

He says his firm charges its 290 clients on a sliding scale, based on a percentage of assets under management.

Those clients with less than \$500,000 pay a fee amounting to 1.25% of assets, while those with more than \$15 million pay 0.375% of assets. Higher fees are sometimes negotiated for extremely time-consuming planning challenges.

Upham, who bought most of the practice's assets from Joel D. Davis Associates in 2011, likens Cribstone's operation to its namesake, also known as the Bailey Island Bridge. The historic bridge, which was built in the 1920s, connects Bailey and Orr's Islands, and is constructed of staggered slabs of granite.

This construction has proved both strong and flexible, allowing it to survive Maine's extreme weather and the heavy tides that flow through the span called Willis Gut.

"The concern of the engineer was that the eddying and erosion would weaken the bridge over time, but using typical Maine ingenuity, he came up with this structure," Upham says. "It's the only bridge of its kind in the world."

"That's how we work," he adds. "We want to understand the family ecosystem, and design solutions that will be resolute and stand over time. The brand is very much who we are."

Kathy Kristof, a Financial Planning contributing writer in Los Angeles, also contributes to Kiplinger's and CBS MoneyWatch. Follow her on Twitter at [@kathykristof](https://twitter.com/kathykristof).

