

The Family Compound—“Glue” or “Dynamite”?

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With the July 4 long weekend ahead of us, we know many families will be gathering and celebrating Independence Day, many face-to-face for the first time since the pandemic forced quarantines, separation of loved ones, omnipresent masks, and social distancing. For some, these get-togethers may take place at the family homestead by the lake, the ocean, or overlooking some beautiful vista that generations of the same family have enjoyed for decades.

In our work with family businesses, we often see the leading generation—parents, grandparents—creating property that is the start of a family compound that they come to see serving as a common ground—figuratively and literally, for future generations. At the same time, we have seen that future joint ownership sets the stage for potentially differential connection and feelings about who, how, and when family togetherness is expected. The psychological value of having a family gathering place brings both anticipation and guilt—do I/we have to go, where does my branch stay, how are we paying for it, among sensible questions that can be taken for granted in the eagerness to come together. But like anything else that brings families and their economics together, some forethought can go a long way. Joint ownership of property can be like dynamite—with disagreements causing fissures between family members as they try to navigate the waters of working together as owners and occupants of the beach house, the ski chalet, or urban apartment.

Families in business together regularly hear about the low survival rates of family businesses, with estimates of 13% survival through G3. But what of the survival rates of family compounds? In talking with Ruth Kennedy of LandVest, a real estate firm focused on complex properties such as family compounds, she shared with us some of the parallels she sees: “The majority of the family compounds we sell are being offered by G2/G3, because, just like family companies, it is hard to make it to G2 and harder still to G3. Those families who have successfully navigated through multiple generations share a few common qualities: means, alignment, good external advice, and good communication—or simply clear control by one family member or one distinct branch”. Ruth regularly sees family compounds heading for sale where those qualities are not present. “There are still opportunities to devise win/win strategies, but it is always better to get ahead of the curve.” Retaining an expensive legacy asset that sees little usage, is in need of capital improvements, or has fading appeal to family members that have dispersed far and wide can make little sense. Martha Frahm, tax planning attorney at Goulston & Storrs adds that “families should not assume everyone has the same emotional attachment to family traditions or financial means to support the family home; open and honest communication is key.”

Once the leading generation is gone, without having had some intentional discussions—ones seeking common ground and not a nostalgic agenda—we often find succeeding generations face a lack of aligned goals, a lack of practice in managing differences, financial realities of maintenance and renovations, and any number of other factors that lead to the eventual sale of the property. While sometimes this sale is inside the family, selling the property may do little to repair hurt feelings among family members. Other times, the only sale process acceptable to all parties is one that captures its full economic value, resulting in a sale outside the family to a third-party buyer. What had generated mostly happy memories becomes another part of the feeling of loss.

What can families do to help their property survive through generations if that is desired? What steps can be taken to keep family compounds relevant decades after they were first created? In our experience working with families making decisions about collective economics, there are a number of steps that can be taken to create conditions for continued ownership, use, and togetherness:

- 1. Create a statement of wishes.** When still possible, have members from the leading generation outline their hopes about the property—as a gathering place, or their wishes that it be sold so members can make their own decisions about how to gather. The idea is to provide a framework for future decision-making. Many businesses have mission and vision statements and often families have constitutions that include their values, but being explicit about the intended value of holding a shared property in a particular location, across generations, is an important first step here.
- 2. Know the numbers.** Much like a business, broader understanding of both the operating and capital expenses required to maintain a family compound is critical. In addition to annual budgets—which take into account maintenance, insurance, taxes, third-party costs, etc.—families can also plan for the unexpected and for longer-term capital improvement projects: a new roof or a paint job. It is also important to understand what can be done with a property if everyone can't stay "in"—a partial sale, limited development or conservation sale/gift might enable family members to keep the property.
- 3. Adapt to family needs.** Traditions are a critical part of family bonding and togetherness. Many family compounds were designed to support the hobbies and interests of earlier generations; for a compound to remain interesting to subsequent generations, new hobbies and interests need to be supported. If this means game rooms replace libraries, jet skis replace canoes, and AC to replace window fans, these shifts can capture the attention of subsequent generations for whom many more easily accessible alternatives may already exist (versus a two-week stay at the family homestead).
- 4. Allow choice.** Inheriting the ownership of a family compound brings with it heightened responsibilities, particularly as the leading generation ages or passes. If separate funds have not been earmarked for the property's sustainability, many financial needs must be addressed by the ownership group. If, based on a lack of desire or perhaps having full-time residence far away, leads to certain next generation owners not using the property, they should be given the opportunity to opt out of their ownership. In later generations, we often see different tiers of family compound users, differentiating between those that are owners responsible for sustaining the property and those that have no ongoing financial responsibilities but whose access may be limited and may carry with it a daily or weekly rate.
- 5. Create spaces.** As a family expands, so too does the need for space, both physical and mental. Where possible, creating the necessary bedrooms, bathrooms, and living spaces that allow some level of comfort and privacy are vital to the preservation of homes once meant for a nuclear family of two parents and their children. At the same time, creating mental space that enables collective and separate time so people can make some choices (e.g., meal times, sleeping habits, exercise, etc.) offers a far greater chance of fostering family harmony than peer pressure to do karaoke until 2AM or the guilt about missing the 7AM hike.
- 6. Have projects that can engage the family.** Whether the exciting installation of a swimming pool or the mundane replacement of the septic system, family compounds provide a long list of projects that, when selectively tackled together, offer the opportunity

to engage across branches and generations while also avoiding overburdening one person with the weight of project management, deciding in a vacuum, etc. While, necessarily, one person or a sub-group needs to be ultimately accountable for delivering on the project, they should also include others as it fosters collaboration and learning.

- 7. Make use of third parties.** Much like today's Airbnb model of part-time property managers who take care of cleanouts, minor repairs, grocery shopping, etc., employment of an outside third-party as property manager can take the spotlight off the family members' potentially differing definitions of "clean" or "ready for the winter".
- 8. Communicate—formally and informally.** Lastly, but perhaps most importantly, communication, formal and informal, helps property owners avoid the surprises. Formal but still accessible tools such as a property calendar with ground rules, and step-by-step instructions provide some group clarity about basics. Transparency helps, when the property calendar is open for sign-up for one unit's or branch's use, when it is reserved for all for a family meeting, and/or when it is first come, first served or on a rotation. So too is visibility of the budget and around some of the critical decisions being considered. Annual or bi-annual family meetings about or even at the compound are table stakes in connecting multiple generations to each other in the context of their jointly-owned property. Finally, informal communication between family members is also vital for all as you navigate the unexpected, both good and bad—leaving a note for the next occupant about a ripe blueberry patch or providing a heads up about the bike flat tire that happened hours before heading back home—are fundamental to communal ownership and living.

When fully considered—before and during ownership, a family compound can serve as "glue"—a concrete, tangible testament to a family enterprise's strength, providing the literal environment in which family members can congregate and celebrate. Likewise, when left to osmosis, compounds can become the "dynamite"—the all-too-fertile ground upon which family members may act out disagreements. This summer, we hope your family compound holds more glue than dynamite for the months and years to come.