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Real Estate
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How to buy a vacation home with friends or family

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Sales of vacation homes have been rising sharply lately. Across the country, the number of vacation homes sold last year was up 30% from the year before, according to the National Association of Realtors.

Vacation homes now account for 13% of all home sales. The median price last year was $168,700. Interestingly, most vacation home buyers are under age 45.

Many people have long dreamed of owning a second home, but buying one can seem like a big stretch. One solution is to join forces with friends or family and purchase a home together.

This can be an ideal solution – you get to use the home for part of the year, just as you planned, but you can also share the cost, the maintenance work and the expenses with others.

But before you take the leap, it's important to think through everything that will be involved, and what will happen if something goes wrong. You'll want to have a frank conversation with your partners and draw up an agreement that covers all the bases – a kind of "real estate prenup."

Here are some things you'll want to take into account:

What will you use the home for? Are you primarily interested in using the home yourself as a getaway, or renting it for income? You'll want to be on the same page about this right away, so you don't wind up disappointing someone's expectations.

How will the time there be shared? This is critical, and you need a plan. The problem is that it's often hard to work things out in advance and set a schedule in stone, because everyone's needs will change over time.

If a brother and sister are sharing a property and they both have small families, it might not be an issue at all. But if four or five families are splitting a home, there are bound to be schedule conflicts, and it can be good to have a formal system.

Some co-owners have created an online spreadsheet on which they can sign up for use of the house. Some randomly assign weeks at the beginning of the year, with the owners being allowed to trade and barter among themselves.

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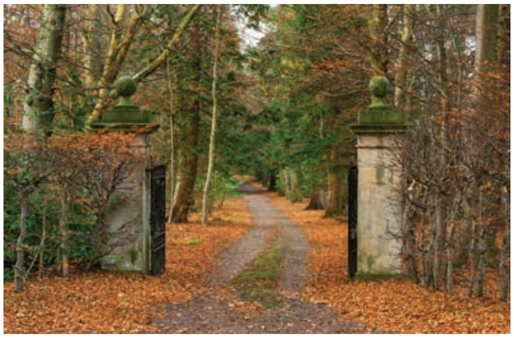
What you need to know about easements on your property

An "easement" is a legal right of someone who doesn't own a piece of property to use the property for a particular reason. Many properties have easements on them, so it's important to know about them if you're considering buying real estate.



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An easement permits a third party (such as a neighbor) to use part or all of a property for a specific purpose. For instance, someone may have a right to walk or drive over part of the property to access their home, or to go hunting or fishing there.

The most common type of easement is a utility easement, which says that a utility company can access part of a property to maintain its services. This is generally no big deal – but if a utility truck shows up on your land one day and begins excavating a lot of dirt to upgrade a gas line, it can be very disruptive.

Another type of easement is a right of way – someone else's right to use your property to get somewhere. This is common where two properties share a common driveway, for instance; one property owner might hold title to the driveway, but the other has a legal right to use it.

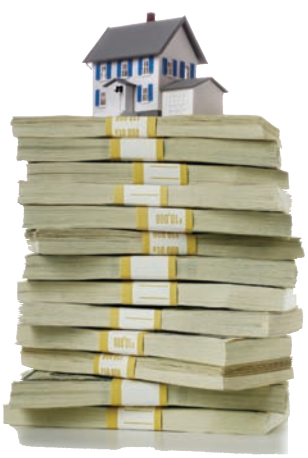
Sometimes a city will buy an easement from a landowner so the public can use part of the land to access a public park or beach.

Some types of easements are a permanent part of the property. For instance, if Ellen has a legal right to use a common driveway owned by Joan, and Joan sells her property, the new owner might still have to allow Ellen to use the driveway.

Other types of easements are specific to a person and aren't part of the property. For instance, if Joe gives his neighbor Bob permission to go fishing on his land, and Bob later moves away and sells his home, the new owner wouldn't necessarily acquire the right to fish in Joe's stream.

Generally, an easement disappears if the purpose for which it was created no longer exists. This was the subject of a recent case in the U.S. Supreme Court, involving an easement over private land granted to the U.S. government back in the 19th century for a railroad track in Wyoming. When the railroad ceased operations a few years ago, the government wanted to repurpose the land as a bike trail. But a private landowner objected. The Supreme Court sided with the landowner, saying that the easement was created solely for the purpose of a railroad track – and once the railroad ceased to exist, so did the government's easement.

REAL ESTATE BRIEFS



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One-third of existing home sales are now in cash

Some 33% of sales of existing homes (as opposed to brand-new homes) are now cash-only deals, according to a survey by the National Association of Realtors.

The number of sales in which the buyer doesn't take out a mortgage began to increase a few years ago during the recession, because well-heeled investors were purchasing large numbers of distressed properties with the goal of rehabbing and flipping them.

But according to the survey, in the last few years investors have been joined by a new group of cash purchasers – retirees. These older folks are selling their homes and using the equity to downsize, or are buying second homes or condos as an investment.

Cash offers are usually more attractive to sellers than those with a mortgage contingency, and as a result a cash buyer might be able to pay less for a property.

Average monthly U.S. apartment rent hits $1,099

The average monthly apartment rent in the U.S. hit $1,099 in the second quarter of 2014, up 3.4% from a year ago.

This was the 18th consecutive quarter in which rents increased, according to research firm Reis, Inc. Over the past year, rents rose 4% or more in many cities across the country, including San Francisco, Seattle, Minneapolis, Houston, Nashville, and Denver.

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This type of system can be tweaked depending on your needs. For instance, all the owners might be guaranteed a certain number of weeks during the peak season, or families with children might be given priority during school vacations.

You'll also want to consider whether owners who spend more time at the property should also contribute more to maintenance, insurance and utilities.

Who – or what – will own the property? Often, the best solution is to set up a limited liability company to own the real estate. The owners can set out all their rights and obligations in the company document. An LLC can also help with protection from creditors, and can make it easier to sell or give away an interest in the home. (On the other hand, it might limit your ability to deduct mortgage interest on your taxes.)

What happens if someone wants to sell is key. Even if your best friends plan to keep the home forever, they could suffer financial problems and need to back out, and you could wind up co-owning a home with strangers or people you don't get along with. A good idea is to give the other owners a "right of first refusal," which means that if someone wants to sell their share, the other owners have the option of buying that person out.

Since it can be hard to sell a fractional share of a home, many agreements say that every few years, the co-owners will each have the option to force a sale of the entire property.

How will expenses be handled? While it's possible for owners simply to contribute money for repairs and other expenses "as needed," this can lead to a lot of confusion and even conflict. In most cases, the better method is to have owners contribute a fixed amount of money on a regular basis that can be used to pay expenses.

It's a good idea to have a separate bank account for the management of the property, which is especially easy if the property is owned by an LLC. A separate bank account will minimize issues over who owes what and who paid for what. And if you plan to rent the property to generate investment income, a separate account will make it much easier to track expenses and profits for tax purposes.

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If you're planning to use the property to generate income, you'll want to make some rules about when the profits can be withdrawn from the account versus being kept there to pay future expenses.

What about routine maintenance? You'll want a plan for this. Will you pay someone to perform routine maintenance? Will you take turns doing it yourselves? Will one partner handle the maintenance in return for making smaller financial contributions? Will the other owners have veto power over expenditures?

What other rules do you need? Some vacation home owners have additional rules for how the property can be used. For instance: How many guests can stay there at once? Can an owner let friends use the property if he or she isn't there? Are pets allowed? Can children under a certain age be left alone there? What sorts of decorations and alterations are permitted? The more you plan ahead, the fewer disputes there will be down the road.

Fannie Mae will continue to back larger mortgages

Fannie Mae and Freddie Mac, the quasi-government entities that insure or repurchase a high percentage of mortgages in the U.S., will continue to back mortgages as large as $417,000 – and as large as $625,500 in some high-value areas.

That's the word from the new director of the Federal Housing Finance Agency, which oversees the two mortgage giants.

This is good news for buyers who want to take out larger mortgages. Mortgages of more than Fannie and Freddie's maximum amounts are usually considered "jumbo" loans, and borrowers typically have to meet much higher standards and face many more restrictions.

The agency had planned last year to reduce the largest Fannie and Freddie-backed loans to $400,000 (and $600,000 in the most expensive locales), but it now says that continuing to insure larger loans will help the country's housing recovery.

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FHA plans to reduce mortgage insurance for many borrowers

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One of the simplest ways for a first-time homebuyer to obtain a mortgage is with a loan insured by the Federal Housing Administration.

The FHA doesn't make loans, but it insures them for lenders. This makes lenders much more willing to offer a mortgage, because if the borrower defaults, the FHA will be on the hook.

FHA loans often require a down payment of as little as 3.5 percent, and can be obtained in many cases by people who have iffy credit or who have a bankruptcy or foreclosure in their past.

The catch is that borrowers have to pay mortgage insurance. Actually, they usually have to pay two types of insurance – an upfront payment of 1.75 percent of the loan amount (which can be rolled into the loan), and a monthly payment that depends on the length of the loan and the amount of the down payment, but can be as much as 1.35 percent annually.

Recently, though, the FHA announced a plan to reduce the insurance rates for first-time homebuyers who agree to participate in financial and credit counseling. The program is called "Homeowners Armed With Knowledge," or HAWK.

First-time buyers must complete six hours of counseling at least 10 days before signing a sales agreement, and another hour of counseling at least three days before closing. In return, they'll get a .5 percent reduction in the upfront payment and a .1 percent reduction in their monthly payments.

Owners who complete another hour of counseling in the first year of ownership and don't fall behind in their payments for two years can get an additional .15 percent monthly payment reduction.

The FHA says that educated borrowers are 30% less likely to run into trouble with a mortgage, so it expects the counseling program to lead to cost savings in the long run.