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Pursuing your goals of owning recreational real estate

Do you have unique real estate goals?

Investors and families with significant wealth often have unique real estate goals. Beyond the homes they live in, many also purchase other assets such as land, investment real estate and recreational real estate. Recreational real estate properties such as ranches, vineyards, hobby farms and equestrian facilities serve as places to bring families together and to entertain guests and business associates. And, in some cases, they can also provide additional income.

Buying a recreational property can represent the culmination of years of hard work and unite the goals you have for property ownership, your family and even your legacy. However, properties like these have significant personal and financial dimensions, so accessing the right kind of support to realize this goal is crucial.

The right resources can help you realize your goals

Your Merrill advisor can access the experience of a credit executive at Bank of America to help navigate your options for purchasing or refinancing recreational real estate. Working with your Merrill advisor, the team will help you evaluate your choices for funding options, whether on the consumer mortgage platform or as a commercial loan, and how it may affect your ability to pursue your goals in the context of your overall financial picture.

If you determine that a sophisticated financing solution is right for you, it can include:

- Competitive rates
- Payment schedules to match your cash flows
- Flexible collateral options

You can also look to Bank of America credit executives to help you and your advisor understand issues that often affect the financing of recreational properties, such as water rights, conservation easements, mineral rights and agricultural attributes.


Ranches


Vineyards


Hobby farms


Equestrian facilities

Recreational real estate should be a carefully considered part of your overall plan

Given the complexity of large real estate purchases, they should be carefully considered in the context of your larger financial picture. Before making any purchase, you should evaluate all your funding options, understand how the purchase will change your exposure to the real estate markets and any implications it may have on your portfolio. If you are refinancing your real estate holdings, the impact of the new credit facility should be evaluated and the risk associated with changing existing loan terms should be reviewed carefully.

Furthermore, recreational real estate could generate income that will need to be managed. Depending on your long-term goals for the property, considerations for how to protect the land and pass it on to future generations should be determined before buying recreational real estate.

Considering your options to fund your purchase or refinancing

Once you have determined that you would like to purchase or refinance a recreational property, the next step is evaluating your options for funding. Liquidating assets in your portfolio to buy the property outright helps you avoid any additional liability on your balance sheet, but it can have several negative consequences:

- Capital gains taxes may be due on the sale of appreciated assets.
- Selling an asset will lock in losses if the value has declined.
- Liquidating investments reduces your exposure to the upside potential of the market.
- Overall liquidity of a portfolio goes down as assets are sold.

An alternative to consider is financing the acquisition of a property, which can help keep investments in the market and help you keep your greater investment strategy intact. Over the long run, if the invested assets appreciate, the value could exceed the additional interest costs associated with financing your recreational real estate purchase. Secured financing also has risks and obligations that you should consider, starting with the impact on your cash flows to make loan repayments and including loan covenants as well as the risks associated with default.

Access to specialized expertise

Real estate financing should be tailored to your unique financial situation and structured to complement your larger wealth management plan. As a Merrill client, you have access to the specialized expertise of Bank of America, a firm that has been in the recreational real estate financing business since 1995, completing more than $1.1 billion* in these kinds of transactions, and has developed extensive experience in the complexities of this asset class. Bank of America's extensive balance sheet and firmwide support allow them to make large loans quickly and efficiently.

Bank of America credit executives, working with you and your advisors, are committed to developing an optimal credit structure for your needs, with customized loan terms that can be tailored to reflect your goals for your wealth, your family and your legacy.

Your credit strategy should take into account all aspects of your personal situation, including:

Asset class considerations

- Correlations with other asset types
- Income and appreciation characteristics
- Risk attributes
- Capital requirements
- Cash flow generation
- Appropriate diversification[1] opportunities within the asset class

Investment considerations

- Portfolio diversification requirements
- Time horizon
- Risk tolerance
- Debt tolerance
- Overall tax situation[2]
- Cash flow and appreciation objectives

*As of July 31, 2019.

See how you can realize your recreational real estate ownership goals

Contact your Merrill advisor to learn more about how we can help you pursue your home, family and legacy goals with the purchase of recreational real estate.

[1] Diversification does not ensure a profit or protect against loss in declining markets.

[2] Merrill, its affiliates and representatives do not provide tax, accounting or legal advice.

Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates, and risks related to renting properties, such as rental defaults.

Please note that nonfinancial assets are not suitable for all investors. Nonfinancial assets, such as real estate, are complex in nature and involve risks including total loss of value. Special risk considerations include natural events (for example, earthquakes or fires), complex tax considerations and lack of liquidity.

This material is designed to provide general information about ideas and strategies. It is for discussion purposes only, since the availability and effectiveness of any strategy are dependent upon your individual facts and circumstances.

Clients should consult their independent attorney, tax advisor, investment manager and insurance agent for final recommendations and before changing or implementing any financial, tax or estate planning strategy.

Credit facilities are provided by Bank of America, N.A., Member FDIC, its subsidiaries or other bank subsidiaries of Bank of America Corporation, each an Equal Opportunity Lender. All loans and collateral are subject to credit approval and may require the filing of financing statements or other lien notices in public records. Asset-based financing involves special risks and is not for everyone. When considering an asset-based loan, consideration should be given to individual requirements, asset portfolio composition, and risk tolerance, as well as capital gains, portfolio performance expectations and investment time horizon. For any loan with securities collateral, the securities or other assets in any collateral account may be sold to meet a collateral call as provided in the definitive loan documents, and the client is not entitled to choose which securities or other assets will be sold. A complete description of the loan terms will be found in the individual credit facility documentation and agreements. Clients should consult with their own independent tax and legal advisors. Certain securities-based loan facilities may require a brokerage account at Merrill Lynch, Pierce, Fenner & Smith Incorporated.

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