



# **LINCOLN SAVINGS BANK**

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## **LSB FINANCIAL**

### **WHILE REAL ESTATE IS STRUGGLING, NOW'S A GOOD TIME TO CONSIDER THAT KIDDIE CONDO**

For parents with investment dollars to spare in deflated college-area real estate markets, there's never been a better time to invest in condos or single-family homes to house a student during their undergraduate or graduate years while providing tax breaks and potential investment appreciation for the folks.

But, it's very important to consider pros and cons because the potential rewards of buying housing for a student carries many risks. Over the past decade, the once-galloping real estate market made condo and home purchases in college areas attractive to parents looking for an actual return on the room and board expenses they would otherwise throw away to their kids' schools. With the double-digit home appreciation of the 1990s, parents looked at buying property as a way to essentially house their kids for free.

Today, in most markets, home values have fallen, which makes for a better investment proposition. But it's critical to talk to tax and financial experts such as a **CERTIFIED FINANCIAL PLANNER™** professional. As a starting point, parents need to consider the following:

#### **How responsible is your kid?**

If your kid thinks you're buying them a crash pad or party palace, you're already in trouble. He or she will have to be responsible enough to act as an onsite landlord making sure the interior and exterior of the property stay in livable and salable condition. That's not a job that every child can handle, so unless you can afford housekeeping and maintenance help, any doubts on your part should dissuade you from such a purchase. Also, if you have ANY suspicions that your child might drop out, take a break or transfer from her chosen school, do you want to risk becoming a landlord yourself or paying for an empty property?

#### **How's your cash flow?**

If you are already a homeowner, you know what owning a home costs – mortgage payments, property taxes, insurance, homeowners or condo association dues, maintenance costs – can you cover these things in a remote residence (including emergencies) without batting an eye? And keep in mind those costs are going to be considerably higher for your kid's property in downtown Chicago than they would be in Omaha. Also, keep in mind that it will cost considerably more to insure this property because even though it's your kid, you'll essentially need to be insured as a landlord based on the damage that can occur in rental properties.



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### **When would you have to sell?**

Most people think in terms of owning a kiddie condo for four years – the term of a standard degree. A decade ago, that was a relatively easy commitment to make as housing prices were skyrocketing and buyers always seemed to be circling. Today, however, owners have to consider that it may take them considerably longer to sell the property at a profit with necessary investments in maintenance along the way, and a big 5 to 6 percent slice off the top to pay a selling broker.

### **Location, location, location:**

Buying a property in the immediate vicinity of campus might be great for your kid who rolls out of bed late for class, but bad for you if you're expecting your property to appreciate. In most markets, on-campus real estate is notoriously low on appreciation (think how you'd feel buying next door to Animal House). This is why investors do better buying in established, off-campus residential areas or developments that are near but not on campus. Your child will have to miss the experience of living with their peers, though, and that's a big consideration.

### **Can the property do double duty?**

Students are pretty possessive about their space and privacy in college, which is why you don't see many parents crashing in their kids' dorm rooms for the weekend. But if you have regular business or vacation plans in the city where your kid goes to school, see if that might be one more incentive to invest as long as it doesn't cramp your style or your kid's.

### **Might your investment become your kid's investment?**

Again, this requires sensible planning and the full cooperation of a responsible child, but if your child is planning to stay in the city where they've graduated, parents might consider a plan to sell the property to their kids at graduation. This could give the grad a great start on their finances during their first earning years.

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November 2009 — This column is produced by the Financial Planning Association (FPA), the membership organization for the financial planning community, and is provided by John Englin, CERTIFIED FINANCIAL PLANNER™. John is a local member of the FPA and is employed by Lincoln Savings Bank and LSB Financial.