



A+ College Real Estate 2005

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The list of college costs can seem countless--ever-increasing tuition, textbooks so pricey they might as well be encrusted with gems and endless incidentals of food, clothing and activity fees.

There's not much you can do to make those expenses less painful. But there is one area where you can soften the hit to your wallet--and if you're lucky, even turn a profit. Invest wisely in housing, and instead of paying for pricey dorm rooms or ratty apartments, you can write a monthly check that boosts your equity.

The cost of housing a college kid keeps going up--according to The College Board, which puts out an annual report on college pricing trends, the average room-and-board expenses for undergraduates at private schools in the 2004 to 2005 school year totaled \$7,434, up 4.6% from the year before. Meanwhile, the median existing home price in the U.S. went up a similar amount from July of last year to July of this year. Where would *you* rather feel the increase?

College-area real estate can be less vulnerable to price declines than other areas, says Eric Tyson, former financial counselor and co-author of *Home Buying for Dummies* and *Real Estate Investing for Dummies*.

"It's not like being in the Rust Belt, where if a big company shuts down the factory, it can really throw a monkey wrench into the real estate market," he says. The University of Michigan, for example, isn't going to fold anytime soon. Plus, a campus means more cultural activities, a decent selection of restaurants and often less crime--all attractive in a neighborhood.

But investors may not see huge gains in prices over short periods of time.

"The down side, if there is a down side, is that people who work in the public sector, in universities and colleges, aren't going to get a \$500,000 bonus and trade up to a more expensive home," Tyson says.

Still, there are the occasional exceptions.

"If you go back several decades, part of the reason the San Francisco Bay area, Silicon Valley and the Peninsula area took off as much as they did was because of the developments that were coming out of the universities," Tyson points out, referring to the high-tech boom. "That can change the dynamics of a local real estate market."

An area to keep an eye on, he suggests, is New Haven, Conn., home to Yale University. The seeds of a biotech industry have long been planted there, and they may yet flourish.

Jeff Groper, president of Bretton Realty in Brookline, Mass., near Boston University, says his office has seen a lot more families buying instead of renting apartments for their children, since interest rates have been so low.

"The kids are coming in with their parents and saying we want to spend \$1,000 per kid to rent," he says. If the parents are able to make the upfront commitment, he suggests they buy a two-bedroom apartment and bring in a roommate.

Recently, a father and his son, a freshman at Boston University, came into the office because the child wasn't happy with his dorm, which cost about \$800 per month, Groper says. The family spent \$240,000 on a one-bedroom that could be split into a two-bedroom. With a roommate, the parents will end up paying less each month on housing costs.

"Through the course of the next four years, the property will appreciate, because it's within walking distance of B.U.," he says. "They will have saved \$50,000. Even if they break even, they walk away having had free rent for four years."

With thousands of students descending on Boston each fall, Groper says he gets calls from around the country from investors who would like to own in the area.

But it's not just a matter of slapping down a few dollars--buyers need to consider several factors in their purchase.

Anyone looking to buy a rental property should look at the cost of renting versus buying the way they would look at a price-earnings ratio on a stock, Tyson advises.

"Look at what your monthly costs are going to be after tax benefits, and see how that compares to the rental income," he says. "If you can't come close to covering expenses or exceeding expenses with rent, the property may be inflated."

Areas near Stanford and Palo Alto, Calif., he suggests, are examples of overpriced locations.

Think about who you're going to be renting to. If you're going to get anxious about a scratch on the wall, you shouldn't buy a property that would most likely rent to college freshmen, Tyson says. Instead, try something that would appeal to professors or researchers.

Location is key--the closer to the university, the more likely students will want it. But if you hope to one day use the property as a pied-a-terre, or want to sell to professionals, you may not want to be in the very thick of things.

"The regular buyers that have done the college bit wouldn't purchase there, because they're too close to campus," says Liz Roberts, sales associate at Coldwell Banker Previews in Washington, D.C. "I wouldn't want to live in that campus-feely environment."

As always, make sure that the building is sound, and you have good resale potential, Roberts advises.

If you do rent to students, be sure to get a substantial deposit to cover damage and cleaning costs, or in case your tenants decide to stop paying rent and go backpacking in Europe for the summer. And remember the bright side--you don't have to put as much upkeep into a student rental as you would if you were targeting professionals. You can also charge more money for students, because they are willing to pack more people in and share bedrooms, as they would have in a dorm.

"Your returns on college students as an investor can be very profitable," Groper says.

To help potential buyers, we looked at more than 300 metro areas and ranked them by their abundance of colleges, and by how much home prices have appreciated over the past five years. Metro areas are not necessarily the same thing as cities. For Boston and Washington, D.C., for example, the metro areas include neighborhoods outside the city boundaries. And, in a few cases, the areas may be defined slightly differently for education and housing data.

We used data on higher education from *Cities Ranked and Rated*. The authors, Bert Sperling and Peter Sander, collected information on the number of two- and four-year colleges from the National Center for Education Statistics, and on the number of universities with selective admissions as judged by the Princeton Review. In our educational rankings, we weighted the number of four-year colleges heavier than the number of two-year colleges and highly ranked institutions.

Then we looked at home price appreciation data from the Office of Federal Housing Enterprise Oversight, part of the U.S Department of Housing and Urban Development. We ranked the metros by appreciation over the past five years, through the second quarter of this year. And we left out some places, such as Waterbury, Conn., and Sharon, Penn., where we couldn't obtain both educational and price data.

Finally, we combined the rankings to figure out which areas had both high numbers of colleges and high appreciation rates. The results weren't that surprising--among the locations that made the top ten were Boston, Philadelphia and New York--all known in part for their stellar universities. All the way on the other end of the scale were places, such as Decatur, Ala., and Victoria, Texas, that have no four-year colleges at all.

[See our list of the ten metro areas with the best education and best real estate appreciation rankings. You just might learn--or earn--something.](#)

If your college town didn't make the top ten, [click here to search alphabetically by metro area and find out where they ranked.](#)