Leaving the NEST

...The College Payment Plan that Pays for Itself

It's a college payment plan you may not have considered, but more and more people are finding real estate investing to be the perfect solution.

The idea is to purchase a house as an investment property when a child is born or very young. Ideally, a 15-year fixed rate mortgage is used for a property that cash flows in the first year. By the time the child has reached college age the property is paid for and the parents can sell the asset and use the gain to fund college. Not only has the equity in the property grown over 18 years, but they've benefitted from the yearly cash flow as well.

Here's how the scenario might play out:

Let's say our fictional parents purchase a $100,000 house with $20,000 as a down payment. They take out a 15-year mortgage for the balance at 6.75 percent interest. Their mortgage payments are roughly $8,945 for the year (or $708 per month).

If they rent the house out for $1,200 a month and have around $325 per month in expenses (taxes, insurance, repairs), they should see about $2,005 in cash per year from rental income for the first 15 years. From years 16-18, the expense of the mortgage is eliminated, yielding them $10,500 in cash flow annually. Over 18 years the total cash flow equates to $61,575. Note that this conservative estimate does not include potential rent increases that will increase cash flow and will help offset additional property taxes. Nor does it include interest earned if the parents decide to reinvest cash flow.

In 18 years the property will have appreciated, too. If we use a 3 percent rate of appreciation, which is less than the 5 percent appreciation real estate has averaged over the past 40 years, the $100,000 property they bought would be worth $170,243 at the time of sale.

The initial $20,000 investment would have earned $150,243 over 18 years - a return of over 13%. Including cash flow, the return is 15%!

While it is difficult to determine what future tuition will be—increases in tuition have spiked dramatically in recent years—a $230,000 ($170,000 sales price + $60,000 in cash flow) cushion should be enough to soften the tuition blow.

Investors aren't limited to purchasing real estate to fund college; many choose to purchase property during the college years to provide their children with a home and save on room and board.

San Francisco-based parents Katie and Dale have purchased a house with multiple bedrooms for their children, leasing the other bedrooms to other students. Because of the high demand, the rent helps pay the mortgage on the property and the parents plan to sell when their children no longer need the house.

In the long run, these savvy parents are saving money and helping to provide their children with a stable place to live during their college careers.

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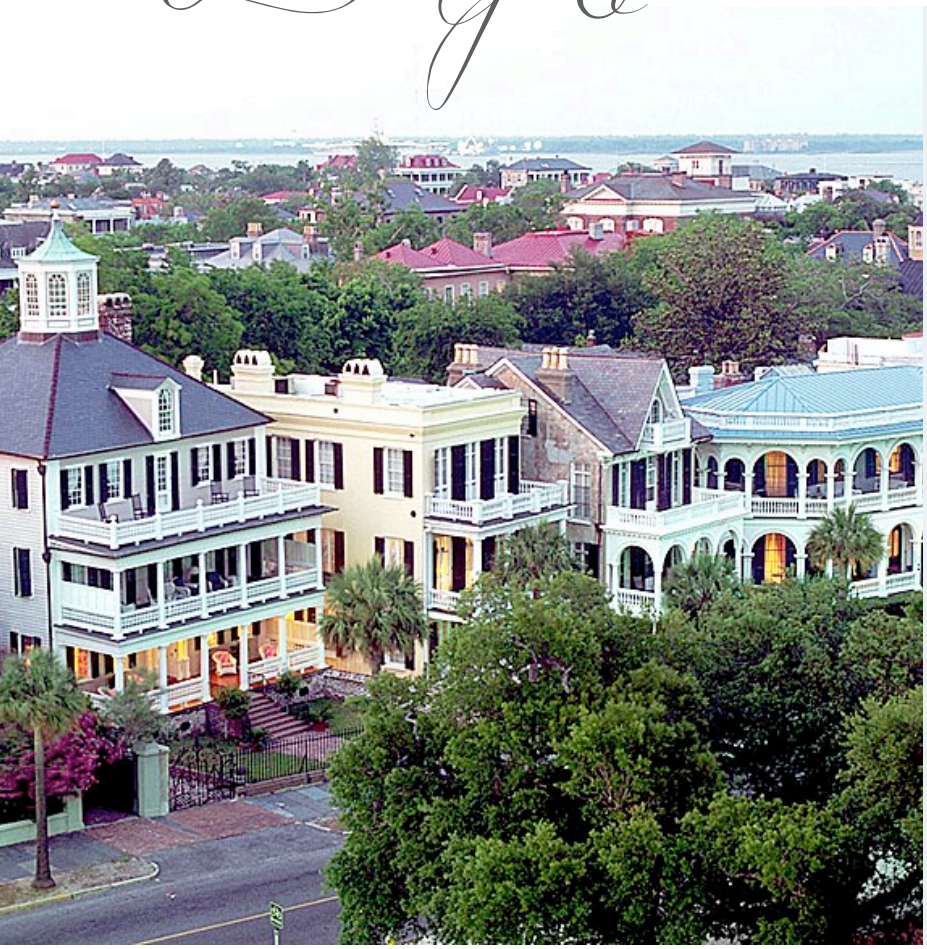

THE AVERAGE COST OF COLLEGE: 2012 – 2013

	Public 2 year *(In-state)*	Public 4 year *(In-state)*	Private 4 year
Tuition & Fees	$3,131	$8,655	$29,056
Room, Board, Books, etc.	$12,453	$13,606	$14,233
Total Cost	$15,584	$22,261	$43,289

Can Investing in Real Estate Pay for College?

Paying for your child's college education is one of the most important commitments you make as a parent. College is expensive, but it is crucial for a child's future. Putting aside the kind of money required, however, is an enormous undertaking and, as a parent, the earlier you can start the better off you'll be.

According to The College Board, in the 2012-2013 school year, enrollment at a public 4-year university, including tuition, room and board, fees, and books costs $22,000 a year.
This means that a 4-year college education for today's student will average $88,000. However, if you are reading this, chances are your child is not ready to start college today. For a student who begins college 18 years from now, it is likely that costs will have increased 5-7% each year, according to Campus Consultants. This means that a 4-year college education could cost about $170,000 in 2030.

This may seem like an insurmountable amount of money to save, but there are some strategies that can help make this goal a reality. In fact, many people are turning to real estate investment as a unique way to save for their child's education that ultimately pays for itself. Here is how they are doing it:

Step 1. Find a Property

Not every property is a good investment; however, you can find a good investment property in any

While you may not know all the ins-and-outs of what makes a property a good investment opportunity, there are qualified real estate agents who are do understand this and spend their days looking for the properties that represent cash returns for their clients. Getting in touch and working with one of these agents is a vital part of taking advantage of today's investment opportunity.

In fact, the opportunity that is presented by today's market is one of the most unique opportunities in history. Prices, while rising, are still discounted from market peaks in the early 2000s, which means the opportunity for appreciation is higher. Combine that with a rental market that is booming and your cash flow opportunity is astounding.

Step 2: Rent out the property

Since cash flow is crucial to creating a good real estate investment, the main calculation you need to make is to determine what the cash flow will be from renting out a property. Renting a property creates monthly income for you, but it also has some added benefits.

First, the monthly rent payment will pay the mortgage on your property. Let's say that your mortgage payment is $1000 a month on a 15-year mortgage. If you can rent the property out for that much (or even more) then you essentially own a property that is being paid off by someone else. By the time your child goes to college, you will have an asset that has appreciated in value and, ideally, you'll have accumulated money in the bank from the cash flow you've been generating.

Step 3: Sell the Property

Once your child is ready to go to college, this investment property, the appreciation and cash flow from your investment property will have grown to the point where the entire education can be paid for! At that point, you can decide what you need to do next.

If it makes sense at the time, sell the property and put the money away so that you can pay for your child's education without stress. You may even find that you don't need to sell the property and can just pay for their education out of continued cash flow you are generating from renting the property. Either way, you've accomplished your goals.

A College Savings Plan that Pays for Itself!

The beauty of this plan is that you are essentially paying for your child's education with other people's money. And the good news is that today's market is one of the best markets in history for real estate investing.

Incredible cash flow and almost unprecedented appreciation add up to a real estate investment opportunity that you may never see again. Finding the right property takes time and diligence. As a CIAS agent, I'm trained to help investors find the best deals with the biggest returns. Whether this is your 1st or 100th property, I can help find the right deal for you.

My real estate team will help you through the entire process before, during, and after your acquisitions to help you minimize risk and maximize your returns.