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## Parental units: When real estate clients buy a home for their kid

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### Key Takeaways

- Compass president Leonard Steinberg is seeing a surge in parents buying homes for their adult children in Manhattan.
- Steinberg said this is a trend that could happen at all socio-economic levels and is an opportunity for first-time buyers to learn some key life lessons.
- The agent's role is to educate the clients on the financial and educational benefits of stepping in early on, rather than waiting to leave their children an inheritance.

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If your first thought when an affluent client tells you they want to buy a home for a grown-up child is, “what a spoiled brat” — banish that attitude immediately.

Because if you are a believer in the real estate market, (which you should be, right?), it is both good for the market and a wonderful opportunity for these first-time homebuyers to learn about the benefits of homeownership, says one expert.

## **A hand up**

In the Manhattan market, Leonard Steinberg, president of Compass, is seeing a surge of parents helping their children buy homes this year.

“The arrangement varies — some parents buy a home flat-out, all in cash, and gift it to the kids; or they pay cash and the kids pay for maintenance; or they just fund the down payment, in some cases asking the children to pay interest on that.”

Is this kind of “handout” spoiling kids? Steinberg says no.

“If you are teaching them about homeownership, I feel that is being responsible, not spoiling. It’s being prudent,” he said.

The way Steinberg sees it, parents in the position to help finance their child’s first home are teaching their kids important life lessons about taking responsibility for a property, seeing it appreciate over time — and, if they are bringing in a roommate, of being a landlord.

“Kids buying with parents are learning how to behave as a homeowner, to leave the place in good shape, collect a rent check, about the responsibility of money — it’s a very valuable lesson, owning, buying and committing to a property for a lifetime.”

Parents, meanwhile, get to keep a connection with their children and to see the value in helping the kids when they are still around rather than waiting until their estate gives them some funds, he said.

And they get to see them not throw away hundreds of thousands of dollars on rent, which often happens in New York.

It’s all good news for the real estate industry, said Steinberg, part of The Leonard Steinberg Team, which is consistently ranked as one of the top 10 broker teams in the United States by *The Wall Street Journal*.

“The surge of parents helping kids buy is outstanding for the real estate industry as it will broaden the ability for younger buyers to be able to afford buying property as opposed to renting,” he said.

And if it’s adding to competition in securing an apartment among first-time buyers, this may send a message to developers.

“There may be more competition in the first-time homebuyer market, but this will also fuel developers to develop more for first-time buyers, knowing the pool of able buyers is expanding.”

### **Lessons for life**

This current trend offers good agents an opportunity to provide all the necessary relevant information, said Steinberg.

“The real estate agent often performs duties similar to a lawyer or financial advisor,” he said.

The most important thing is to educate parents, he said.

He tells them: “The cruel reality is you are going to leave your wealth to your kids. Helping them to buy a home at an earlier age is an investment in your kids, in yourself and in their future. It might be the best lesson for life on what the benefits are of homeownership, and you are there to guide them through the process.”

Once they understand the benefits, parents very much buy into the idea, he said.

“Most parents want their kids to save, and homeownership is accelerating their ability to save.”

Steinberg makes the point that a lot of younger people in their 20s and 30s are earning pretty good salaries, but if they are paying rent in a big city, that will suck up a lot of their monthly earnings, so a deposit of up to 25 percent is very hard to manage.

“It’s easier to buy shoes,” he quipped.

But if you are paying rent, those salaries are getting no tax deductions, whereas the interest you pay on a mortgage gives you a tax break, he said.

“It’s about learning enforced saving; it’s being prudent about taxes and incomes — also, it’s about having pride in your home and its environment. Putting the time and effort into maintaining it, these are all lessons for life,” he said.

### **Popular apartment building on Lower East Side attracts dual generation buying**

Steinberg is seeing this trend of parent-children buyers concentrated in an upcoming 94-unit building on the Lower East Side of Manhattan, at 196 Orchard Street, where parents, incentivized by rising interest rates, are taking action.

The Manhattan agent estimates around 20 percent of the buyers at 196 Orchard fit this parent-child buyer profile.

In this case they are an affluent group, but the trend can work at all socio-economic levels, said the Compass president.

This building, due for completion in 2018, has studio apartments starting at \$1.075 million and two-bedrooms starting at \$2.285 million.

In some cases, he is seeing parents buying with the idea it will be their base when they are in town.

“Sometimes parents will buy a two-bedroom place and say: ‘That’s my guest bedroom,’” he said.

“All parents want to go to the fun, young places. They are not parents anymore; they become friends.”

### **The house-hunting needs of the parent and child combo**

So is there sometimes a conflict in what the parent and child are looking for? One has to assume the parents get the last word.

“The parents are looking for a safe environment and a smart investment. The parents are more rational — they are asking about the amenities, the quality of the location and the potential upside with surrounding neighborhoods,” explained Steinberg.

On the other hand, he added, the kids are asking more questions along the lines of: “Do I want to live here, and does it look good?”

“The kids are not as focused on the smart investment; it’s more emotional,” said Steinberg.

And what happens when the offspring is ready to move on?

Steinberg says their investment gives them options. They now have a savings account for a home upgrade, he said.

“The biggest thing is, this property is a tangible asset — it is a tradable value for their future lives.”

For those in their 20s and 30s who may want to live and work elsewhere, as is common with this mobile segment of the population, they can rent the apartment out, which may pay for rent in another city and allows the homeowner the tax deduction from the property they own.

“Regardless of how mobile you are, this is a tangible asset and a long-term commitment. And it’s a fiscally prudent investment,” said Steinberg.