4 ways to guide millennials toward smart real estate decisions

While it's often assumed that everyone has a fundamental understanding of personal finance, there is a growing need for financial education.

Instead of making smart financial decisions that pave the road to a comfortable life and retirement, many people end up spending their adult lives climbing out of the financial hole they created when they were younger; fortunately, there's a way to avoid this.

Investing in financial education will lead to wise real estate decision making, financial success and freedom.

If you're working with millennials who are looking to invest, offer them the following advice:

- Have at least three months of income saved before investing in property or the stock market. This will prevent extreme financial hardship should job loss, an accident, or some other unforeseen mishap occur.
- A high yield savings account or a money market account is a great place to save a down payment; traditional savings accounts will grow funds, but just barely. Chase Bank savings accounts are currently growing at a rate of 0.01 percent APY, but high yield savings accounts and money market accounts can grow at a rate of up to 1.25 percent.
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Buying versus renting

Housing is the largest single expense for most Americans. While buying a home can cost a pretty penny, renting might cost your millennial clients even more over time. Advise them to carefully weigh their options before deciding whether to rent or buy.

If your clients plan to move within three to five years, they should consider renting — especially in a slow, stable economy; if they buy a home and try to sell it, they might not recoup their equity.

While owning a home is considered to be the American dream, many millennials turn this asset into a liability.

Determining what's feasible

Talk seriously with your clients to understand their budgetary needs. Find out if they are in school, between jobs, living paycheck to paycheck, or expecting a baby.

Many mortgage lenders will qualify young couples for a home that is unaffordable, so it's your job to make sure your clients aren't being pushed into something they aren't ready for.

As their Realtor or real estate agent, you should always have your clients' best interests in mind. Encouraging them to buy a home they can't afford hurts your business and the lending market, and it's not worth the subtle increase in commission.

Easing the burden of housing costs

Millennials set themselves up for financial failure when they borrow money for a house outside their budget. Luckily, there are a couple ways to reduce their overall housing costs.

In order to offset a high mortgage and the related expenses, they should avoid maxing out their credit on housing. In other words, if they qualify for a $200,000 mortgage, they should look for a home valued at $150,000 or less. This will give them the flexibility to pay their loan off quickly or build their retirement, taking advantage of compounded interest.

If they have the space, some millennials rent out a room — sometimes two — in their home to help with their mortgage payment. That rental income can go directly toward their loan principal. Real estate investors understand what this increased equity growth can do to wealth.

Before your clients can rent any space, you will need to make sure they won't be in violation of any zoning laws. You can also check their zoning for short-term rental opportunities and find out if they are allowed to have a separate entrance for a qualified rental in their basement.

Interestingly, some buyers live in their basement while renters live upstairs. This arrangement allows homeowners to pay their mortgage with the money coming in from renters.

Reconsidering expensive choices

There are many things your millennial clients need to consider when taking out a loan, including the type of job they have and the amount of time it will take to repay the loan.

If your clients are struggling to find something in their price range, offer to help them find extra space in their budget. Consider the following:

- Can they trade cars with high monthly payments for something less expensive?
- Can they get better rates on their auto and home insurance?
- What debt can they pay off to avoid unnecessary monthly payments before purchasing a home?
- Are they eating out more than they can afford to?

By asking your millennial clients the right questions, educating them and advising them to save and invest wisely, you'll be helping them escape the uphill financial battle that many people fight all their lives.

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