GLOBE INVESTOR

# Parents can financially suffocate their children by helping them buy houses

## It may seem benevolent, but it can also bring potentially debilitating financial obligations

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OPINION

One financial adviser warns that expensive housing markets such as Toronto's could create 'a lost generation on the investment-savings front.' FRED LUM/THE GLOBE AND MAIL

Today's big test of parental devotion is the gift of money for a house down payment.

Talk to financial planners and advisers these days and you're almost certain to hear about their experiences with parents who want to help their adult children buy a home. The parents worry that, without this assistance, rising prices will keep their kids from ever owning, and so they're getting expert help to see how affordable it would be to carve off a slice of their savings to help out.

It's every bit as important to see if the kids receiving the gift can afford home ownership. According to the people at Bridgeport Asset Management, they may not be able to. Recently, this firm catering to high-net-worth individuals, published an article with the headline: House Rich, Cash Poor: Beware of Strangling Your Kids with Debt.

Bridgeport manages investments for its clients and provides financial plans. They know family finances, and their view is that parents should cool it with the cash gifts for home buying in some cases. The risk for young adults extends beyond short-term cash-flow struggles all the way to retirement.

"Except for the 1 per cent who are very successful in their careers, there could potentially be a bit of a lost generation on the investment-savings front, where net worth for some people is all house," said John Fisher, president and chief investment officer at Bridgeport. "They've stretched to buy the house and they're managing to make those mortgage payments, but there's not a lot left."

In cities such as Toronto and Vancouver, house price appreciation in the past decade is so dazzling that it seems to offer all the financial success anyone needs in life. But home equity can be a strikingly useless asset on its own. You can't crack it open without borrowing through a home-equity line of credit or reverse mortgage, or selling and moving to a smaller, cheaper home.

Housing wealth should be complemented with liquid investments, such as stocks, bonds and funds held in registered retirement savings plans or tax-free savings accounts. Those investments will be especially important to today's young adults in retirement because of how frequently they work in contract jobs with no pension.

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The risk of a correction in house prices also must be considered by parents who believe houses to be a surefire investment. After peaking in 1989, Toronto prices fell so violently that it took until 2002 to reach a new high. Toronto prices are nearly double their 2009 level, but they have recently started to decline as a result of new federal mortgage lending rules and rising mortgage rates. Cities around Toronto are suffering as well right now, although the situation across the country varies a lot.

"I think there's a view among a lot of people who come in here that real estate can only go up, up, up," Mr. Fisher said. "A lot of people have forgotten the early 1990s."

Another question for parents is how they would feel if a market decline eats their financial gift toward a home down payment. Mr. Fisher's sense is that parents who had to dig deep into their own financial resources would find a correction to be very disturbing.

The biggest risk to adult children getting parental help is that buying a house could, in Bridgeport's words, "shackle them to years of suffocating payments." Mortgage payments on a $1-million home bought with a gifted $200,000 down payment means monthly payments of close to $4,000, the firm's article says. Add property taxes, insurance and utilities and you have another $1,000 a month.

The load could get heavier if interest rates keep rising, Bridgeport warns. Five-year fixed-rate mortgages are going for 3.2 per cent to 3.5 per cent right now, compared with as low as 2.24 per cent a year ago. More rate increases are certainly possible.

While renting is expensive in some places, it's still a more affordable option than owning. That's why Bridgeport says renting may be the better option. "The reality is it can make more sense for younger people to continue to rent and use their long investment horizon to accumulate savings until they are on more solid financial footing."