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Good Schools, Bad Real Estate

by Sarah Max
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Despite the housing slump, house hunting in good school districts frustrates parents who often have to settle for less house.

Oh, the sacrifices parents make.

Kiely and John Adams began their house hunt this spring with grand plans to upgrade from their small home in Cary, N.C., to a larger, four-bedroom house—preferably with an office and a bonus room—about 25 miles away in Chapel Hill, where Kiely plans on starting a Ph.D. program next fall.

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They could have gotten all that and more for their \$415,000 budget if they kept their search on the outskirts of Chapel Hill. But, determined to stay within the boundaries of Chapel Hill's highly-regarded school district, the parents of 5-year-old twins, Megan and Bevin, and 4-year-old Sean trudged ahead in

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what they dubbed "an exercise in compromise." Even when they did find a house that showed promise, it was usually snapped up before they could take a closer look. "Most houses seemed to come and go, come and go," Mr. Adams says.

It's supposed to be a buyer's market. Yet, for parents determined to buy in areas associated with top schools, those bargains may be harder to come by. When housing markets go south, "areas with exceptional schools tend to hold their value better than the market overall," says Michael Sklarz, president of Collateral Analytics, a Honolulu-based firm that specializes in real estate data analysis.

In Chapel Hill, where the Adams family was looking, the average single-family home price, based on price per square foot, has declined about 4.8% since the market peaked in 2007, according to Collateral Analytics, but houses there still command about a 48% premium, per square foot, to homes in the Raleigh-Cary metro area.

In other parts the country, home prices have dropped in areas with good schools, but the declines are typically nowhere near the levels in their surrounding metro areas. In Irvine, Calif., a city that regularly gets national attention for its quality schools, average price per square foot has fallen 18% since its 2006 peak, but prices in the greater metro area surrounding Irvine fell 33%. The same goes for Edina, Minn., where prices per square foot are down about 14% since their peak, versus 27% for the greater Minneapolis area. And in the brainy town of Andover, Mass., prices are down just 4%, versus more than 16% for the Boston metro division.

There are several factors at play, says Mr. Sklarz. Areas with good schools tend to be more affluent and were less susceptible to the sub-prime mortgage debacle so saw fewer foreclosures. What's more, homes associated with great schools generally sell faster, in good markets and bad.

All of this comes as no surprise to the real estate agents who work with education-obsessed parents. "Schools have a huge impact on home values," says Kathy Beacham, a real estate broker in Raleigh. When schools in her own well-to-do neighborhood were redistricted three years ago, the value of her million-dollar home dropped more than \$150,000. "A good education has always been important but I don't remember looking at the numbers like parents do today," she says.

Then again, the numbers have never been so widely available. State assessments, independent ratings from websites like GreatSchools and Education.com and annual magazine rankings of America's top high schools have not only made it easy for parents to factor school test scores and parent-teacher ratios into their buying decisions, they've cemented the relationship between home prices and school quality.

When Florida rolled out its statewide grading system in 1999, the real estate market took note. According to research by David Figlio, who is now a professor of education, social policy and economics at Northwestern University, an A-rated school in Gainesville added about \$10,000 to the value of a home there versus a B school.

Meet Bellevue's Enforcer

Glenn Hasslinger, the student placement manager for the Bellevue School District, wears many hats, but enforcing the district's enrollment policy could easily be a full-time job.

The state of Washington allows students to cross school boundaries, provided there's space. Because most of Bellevue's best-known schools don't have spots to spare, families enrolling their kids in those schools need to show proof of residency and actually reside within the district four nights a week. "Some people will argue over the semantics of what it means to reside," says Mr. Hasslinger. Others get creative. They rent apartments in Bellevue for a couple months prior to enrollment, craft stories about the kids going to live with grandma and grandpa and broker deals with residents in order to come up with the proper paperwork. Paying for someone's utility bill is a popular ruse.

The truth, says Mr. Hasslinger, usually comes out when neighbors tattle, school mail gets returned or kids inadvertently spill the beans. During the last school year alone, Mr. Hasslinger investigated 35 cases of questionable residency. "I'm guessing we're just scratching the surface," he says. "There are probably two or three times as many cases." -S.M.

Once a school is graded, the gap often grows. Strong ratings lead to better community support, which in turn leads to better schools. Today, the difference between an A school and B school might easily be \$50,000 on a \$300,000 house, he says.

That phenomenon isn't lost on residents of Bellevue, Wash., a Seattle suburb that is home to some of the best schools in the state. "I don't think there's ever been a school levy on the ballot here that's been turned down," says broker Michael Orbino. Even residents who don't have school-age children tend to stand behind the schools. It's not altruism; it's economics. All things being equal, homes in the Bellevue school district fetch as much as a 15% premium to those just outside of it, he says.

"But there's more to it than that," says Mr. Orbino. "Because the land is worth so much more in Bellevue, builders tend to build more expensive homes here," making the school district that much more expensive to begin with. By Mr. Orbino's estimate, the prices for single-family homes are down about 10% since the market peak. "But it isn't a catch-all," he says. Prices for ultra-luxury homes and condos, which generally aren't influenced by schools, are down 30% to 40%, he says. So while prices per square foot in Bellevue have fallen slightly more than the Seattle market overall, prices for more family-friendly abodes haven't necessarily seen the same declines.

The stabilizing effect of good schools is welcome news for those who already own property in school boundaries, but it makes it tough for parents to trade up to better homes. John and Kiely Adams considered themselves lucky to have found a three-bedroom home in a Chapel Hill neighborhood they liked and at a price in their budget. But, alas, they were forced to back out of the deal when their current home came up short in the appraisal. With their daughters' first day of kindergarten fast approaching, the couple will stay put for now and start the process over again next spring. "We don't want them to start kindergarten only to yank them out two months later," says Mr. Adams.

Left with few other options, some parents get creative. Bellevue school administrators have seen all kinds of tactics for skirting the district's policy that students spend at least four nights a week within boundary lines. Common ploys include using a family member's address or taking over a resident's utility bill, one of the documents used as proof of residency. The school district has uncovered 35 cases of enrollment fraud this year alone. Other families jump school boundaries by spending four nights a week in a small apartment and going home to a bigger house in another town for the weekends.

Two years ago, Daniel and Dee Shin used an inheritance from Mr. Shin's father to pay \$410,000 for the "cheapest house they could afford" in Bellevue for the sole purpose of securing a spot in the school district for their then 11-year-old daughter, Kayla. The 900-square-foot circa-1955 rambler is "beat up and not insulated very well," says Mr. Shin, adding that he assumed that paying property taxes on the house would be enough to satisfy the school district's residency requirements even if the family actually resided in a 2,326-square-foot, four-bedroom home in the nearby town of Renton. Their new neighbors in Bellevue, evidently, didn't see it that way. They reported the Shins to the school district, and the district gave them an ultimatum: move into the Bellevue district by the time Kayla registers for high school in February, or start the following school year in another district.

The decision was clear for the Shins. They plan to spend the summer insulating the Bellevue home and doing their best to make it livable. Come January, they'll move into that house, and their extended family will move into the house in Renton.

The Shins considered just sending Kayla to a private school, but Mr. Shins says that suggestion triggered "on demand tears" from Kayla, who doesn't relish the idea of going to a different high school than her middle-school pals. After all the trouble the couple went through to get Kayla into Bellevue schools, they're determined to see her graduate from Newport High School, which, Mr. Shin is quick to point out, is consistently ranked among the best in the country.

As the father of three children ages 11, 14 and 16, Northwestern's Mr. Figlio understands the dilemma parents face. When he and his family relocated from Gainesville, Fla., to Evanston, Ill., in 2008, Mr. Figlio vetted the middle schools before making a decision about where exactly he and his family would live. For parents struggling with how to get their kids into the "best" schools at a price they can afford, he recommends considering test scores, state ratings and the like—but not getting too hung up on enrolling your child in an A+ school at all costs when a B+ school might actually be a better fit, academically and financially.