

# Business Finance

## Rent vs. Buy

Subject Area: Business Finance      Grade Levels:12th

Date August 2013

### Lesson Overview

Students will learn the process of buying a home and renting an apartment. They will compare and contrast the cost associated with both living situations.

### Materials Included in this Lesson

- Mathematics of Money With Algebra Textbook
- Project Worksheet
- Internet

### Skills the Student will Learn

- Vocabulary pertinent to the topics of buying a house and renting an appt.
- How to Calculate:
  - Down Payment
  - Monthly Payment Formula
  - Broker Fee's
  - Security Deposit
  - First/Last Month's Rent

### Student Deliverables

- Chapter 12 Test
- Chapter 13 Test
- Buy vs. Rent Project

Length of Lesson: 8 Days

### Activity Day One

#### 12.1 Buying a House: How to determine the Costs

- Comparing different types of Loans
  - Variable Rate
  - Fixed Rate
  - Balloon Mortgages
- Down Payment
- Monthly Payment Formula
- Total Payment

## Activity Day Two

12-2 The Mortgage: How much can you borrow?

- Mortgage Management ~ Keeping your mortgage within a manageable percentage of your take home pay.
- Amount Formula

## Activity Day Three

12-4 Home Ownership: Financial Responsibilities and advantages.

- Calculate Future Value of an Investing Money.
- Periodic Investment to save money for home repairs and appliance replacement.
- Calculate Property Tax and Tax saving for owning a home.

## Activity Day Four

Chapter 12 Test

## Activity Day Five

13-1 The Hunt for an Apartment:

- Determine rent on based on what you make per year
  - Rent should be equal to one weeks pay
- Cost associated with renting an appt.
  - Broker Fee's
  - Security Deposits
  - First and Last Month's Rent
  - Total Cost for initial move in

## Activity Day Six

13-3 Choosing a Place to Live: Should you Buy or Rent?

- Compare Mortgages vs. Rent
- Calculate 30 year Mortgages with down payment vs. Rent
- Total Cost for 30 years Renting vs. Buying ~ including inflation on the Rent.
- Assess Value of home with fictitious amount of inflation after 30 years.

## Activity Day Seven

Chapter 13 Test

## Activity Day Eight

### Rent vs. Buy Project

Students will be in a computer lab for this project:

Students are given a budget of \$800 for one person or \$1500 for two people, and a maximum budget of \$125,000 to purchase a house.

The first step is that the students will be choosing an apartment to live in using [rent.com](http://rent.com). After finding the apartment online each student has to call the write down all the information. (price, square footage, number of bedrooms, Amenities, Security deposit, move in cost, rules for pets, length of lease, etc.)

Next they go onto <http://www.metrolistmls.com>/or <http://www.ziprealty.com>/ to find a house in an area of their choosing in California. Each Student is required to pick their own house and is given a maximum budget of \$150,000. They are required to write down all the details about the home they have chosen. (price, square footage, pool, number of rooms/bathroom, hardwood floors, etc)

Each Student will then mathematically determine the following:

- Monthly Payment for a 30 year loan with a 6% APR with a 20% down payment
- Total Cost for the home loan
- Tax saving using property tax and mortgage interest.
- Assessed Value of the home after 30 years given a 2.5% inflation rate over 30 years.

Finally each student is required to write a list of three advantage/disadvantages of renting an apartment and three advantage/disadvantages for buying a house.

## Enrichment Suggestions

Here are a couple of activities that you can use to enhance this lesson:

- Have student fill out rental applications.
- Do a secondary project and have students look up 5 houses in two different neighborhoods to figure out the cost per square foot for each house. Have the student's average out the cost for each neighborhood and write a paragraph determining what factors affect the price of each neighborhood.

## Student Resources

Internet, worksheets, calculators, mls listings, and rubrics for assignment.

## Common Core Standards

11.3. Analyze a complex set of ideas or sequence of events and explain how specific individuals, ideas, or events interact and develop over the course of the text.

11.7. Integrate and evaluate multiple sources of information presented in different media or formats (e.g., visually, quantitatively) as well as in words in order to address a question or solve a problem.

11.6. Use technology, including the Internet, to produce, publish, and update individual or shared writing products in response to ongoing feedback, including new arguments or information.

## CTE Pathway Standards

A5.2 Determine investment and finance options available at different stages of a business or product life cycle.

## Lesson Plan Relevance To Externship

For my externship I worked with a realtor and was exposed to how realtors market, sell, price, list and dealing with state and local agencies. This project will expose my students to the cost and advantages and disadvantages to the different living options that are available to them.

## Rubric for the (Rent vs. Buy) Project

Student Deliverables	1 Exceeds Expectations	2 Meets Expectations	3 Approaches Expectations	4 Fails to meet Expectations
Information on Apartment	<ul style="list-style-type: none"> <li>• Name of Apartment</li> <li>• Address</li> <li>• Costs for different Apartments including square footage</li> <li>• Complete list of Amenities</li> <li>• Move in Costs</li> <li>• Length of Lease</li> <li>• Detail about Lease               <ul style="list-style-type: none"> <li>○ Pets</li> <li>○ Date Rent is Due</li> <li>○ Cost for late Payments</li> <li>○ Rules of Community</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Name of Apartment</li> <li>• Address</li> <li>• Costs for different Apartments including square footage</li> <li>• Complete list of Amenities</li> <li>• Move in Costs</li> <li>• Length of Lease</li> </ul>	<ul style="list-style-type: none"> <li>• Name of Apartment</li> <li>• Address</li> <li>• Costs for different Apartments including square footage</li> <li>• Complete list of Amenities</li> </ul>	<ul style="list-style-type: none"> <li>• Name of Apartment</li> <li>• Address</li> <li>• Costs for different Apartments including square footage</li> </ul>
Information on House	<ul style="list-style-type: none"> <li>• Price of House</li> <li>• Square footage</li> <li>• Cost per square footage</li> <li>• Amnesties offered</li> </ul>	<ul style="list-style-type: none"> <li>• Price of House</li> <li>• Square footage</li> <li>• Amnesties offered</li> </ul>	<ul style="list-style-type: none"> <li>• Price of House</li> <li>• Square footage</li> </ul>	<ul style="list-style-type: none"> <li>• Price of House</li> </ul>
Calculations	<ul style="list-style-type: none"> <li>• All Formulas written down</li> <li>• Correct answers</li> </ul>	<ul style="list-style-type: none"> <li>• All Formulas written down</li> <li>• Correct answers</li> </ul>	<ul style="list-style-type: none"> <li>• No Formulas written down</li> <li>• Correct answers</li> </ul>	<ul style="list-style-type: none"> <li>• No Formulas written down</li> <li>• Incorrect answers</li> </ul>
Comparative Analysis on the Apartment vs. House	<ul style="list-style-type: none"> <li>• Comprehensive evaluation</li> <li>• 3 advantages/disadvantages for apartment</li> <li>• 3 advantages/disadvantages for house</li> </ul>	<ul style="list-style-type: none"> <li>• Comprehensive evaluation</li> <li>• 3 advantages/disadvantages for apartment</li> <li>• 3 advantages/disadvantages for house</li> </ul>	<ul style="list-style-type: none"> <li>• Comprehensive evaluation</li> <li>• Less than 3 advantages/disadvantages for apartment</li> </ul>	<ul style="list-style-type: none"> <li>• No evaluation</li> </ul>