



RENTING VS. OWNING A HOME

GRADE LEVEL 10-12



“TAKE CHARGE OF YOUR FINANCES”

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Time to complete: 60 minutes

NATIONAL CONTENT STANDARDS

Family and Consumer Science Standards: 1.1.6, 2.1.1, 2.1.2, 2.1.5, 2.1.7, 2.3.1, 2.5.1, 2.6.1, 3.3.6, 3.3.7

National Council on Economic Education Teaching Standards: 3

National Standards for Business Education

- Career Development:
- Economics: I.1, I.2, II.1, IV.1, IV.2, IV.3, VI.3
- Personal Finance: V.3, VII.1

OBJECTIVES

Upon completion of this lesson, participants will be able to:

- Compare the advantages and disadvantages of renting and owning a home
- Justify the reasons which influence the decision to rent or own a home
- Produce a plan for furnishing a first apartment, dorm room, or house

INTRODUCTION

Housing is often the largest of the four major personal expenditures (housing, food, transportation, and insurance). In most spending plans, it accounts for one-third of a person's income each month. Many varieties of housing are available. The type of housing one chooses will depend on goals, values, needs, and wants. When searching for housing options, a person must decide whether to rent or purchase a place to live. Deciding whether to rent or own requires education, exploration, and distinct separation of emotion from this difficult financial decision. A person may discover it makes more sense to rent depending on financial resources, where the person lives, and how long he/she expects to reside in one place.

A housing decision should be based on an analysis of one's financial status. Before choosing a place to live, calculate how much can be afforded for housing expenses according to income, debts, and other expenses listed in one's personal budget. Next, research must be done to help decide whether renting or buying makes the most sense.

Reasons for Making a Housing Choice:

People choose to rent or buy a home for many different reasons based upon their situation. There are many aspects to consider:

- Personal and financial goals
- Personal values, needs, and wants
- Amount of money available for housing costs
- Financial resources and readiness
- Credit history
- Real estate prices

- Location preference
- Expected length of stay in a particular place

Comparison of Expenses:

Renting

- Monthly rent
- Security deposit
- Utilities – electricity, water, garbage, etc.
- Renter’s insurance

Owning

- Monthly mortgage payments
- Down payment (one time cost)
- Closing costs (one time cost)
- Utilities – electricity, water, garbage, etc.
- Homeowner’s insurance
- Real estate property taxes
- Maintenance

Renting:

Rent is the cost of using someone else’s property. Examples of property choices include apartments, condos, houses, mobile homes, etc. A **tenant**, or renter, is a person who rents the property. Tenants are generally people who either cannot afford home ownership or have chosen not to purchase a home. The owner of the rental property is the **landlord**. The landlord may act as a property manager or hire an agent to perform the management duties. A **property manager’s** duties may include collecting rent and deposits, paying utility bills, performing repairs and maintenance, watching over the property, responding to tenant complaints, assigning new tenants, etc. The property manager may charge a fee to the landlord to perform the management tasks. Rent is usually due on the first day of each month to the landlord or property manager.

When moving into a new place, people are usually required to pay a security deposit and sign a lease. A **security deposit** is an advance payment to cover anything beyond normal wear and tear on the unit. This deposit may be returned to the tenant when the unit is left in good condition. A **lease** is a legal contract between the tenant and the landlord specifying the responsibilities and rights of both parties. Lease agreements identify the rent amount, security deposit amount and details on items such as: payment for utility bills, late payment penalties, length of lease, and eviction terms.

Advantages of renting include:

- Low move-in costs
- Fixed monthly expenses
- Easy to move
- Location choices (may be close to work or school)
- Less maintenance and repair work
- Fewer responsibilities
- May offer extra amenities such as a tennis court or pool
- Typically less expensive than home ownership
- May be able to save for other wants or needs if renting a less expensive apartment
- Other expenses may be included in rent payment including electricity, water, sewer, and/or garbage

Disadvantages of renting include:

- Subject to terms of a lease
- Rent may change with little notice
- Less privacy and transient neighbors
- Restrictions on noise level and/or pets

- Fewer opportunities to upgrade apartment (i.e. new carpet, paint, or wallpaper)
- When leaving a property, no equity is returned as it would be if selling a home
- No tax deductions
- May lose rental if the property is sold

Owning:

Home ownership means the buyer has purchased a housing unit as property. Home ownership is a goal of many Americans and is something many individuals consider to be an indication of the “American Dream.” Home ownership shelters hard-earned dollars from taxation, provides a hedge against inflation, builds wealth, and helps to provide security in retirement.

Approximately two out of three American families own the homes in which they live. Some 63 million U.S. households own their homes. Home ownership can be a source of great pride to many people. Many renters would prefer to own, but cannot afford the necessary down payment or the costs of ownership. Buying a home is a significant investment of wealth in the U.S. It is a major financial decision which is a mystery to many first time home buyers. Americans have almost \$9.1 trillion invested in single-family homes, according to estimates by the Federal National Mortgage Association. Their **equity**, the value of what they own outright after mortgage debt, amounts to about \$5.4 trillion dollars (above statistics from [The Wall Street Journal Lifetime Guide to Money](#), C. Frederic Wiegold).

The decision to purchase a home should not be taken lightly. As millions of home buyers learned to their dismay in the late 1980s and early 1990s, it can be a money-losing proposition. Though national home-price averages remained stable, the cost of housing in some areas skyrocketed as a result of sudden economic prosperity only to plummet a few years later. The fluctuation in the cost of housing and the resale value of homes made it difficult for many sellers to recoup their initial investment. If investors were unable to keep their investment, they lost large sums of money. Investors who kept their property until the market recovered were able to resell at a profit. With so much at stake, it is essential to perform research before buying a home. If ownership is not feasible at this time, sound financial planning and savings can assist a person in planning for the benefits of home ownership later in life.

To purchase real estate, many people apply for a mortgage. A **mortgage** is a home loan in which the real estate is the collateral. **Collateral** is an item promised to the lender if the borrower does not pay back the loan. Collateral is usually the item that was purchased with the borrowed funds. 90% of buyers use a mortgage to purchase a home. The three main components to a mortgage are the *amount borrowed, the interest rate, and the length of the loan*. The amount of money borrowed for the loan depends on the size of the down payment and the price of the home. The recommended purchase price an individual should pay for a home is 2 ½ times their annual household income. A **down payment** is the amount of money paid on the home at the time of purchase. The larger the down payment, the smaller the amount borrowed which lowers the monthly payment. A down payment is typically 10 – 20% of the purchase price of the home (above statistics from [Personal Finance](#), Elizabeth B. Goldsmith, 2001). The interest rate of the loan will fluctuate according to state of the U.S. economy. The typical length of a loan is thirty years, but this may vary.

Advantages of home ownership include:

- Build equity which can be borrowed against if necessary
- Pride of ownership
- Feel more comfortable and have more privacy
- Stable mortgage payments
- More room and storage
- Improvement of buyer’s credit rating
- Income tax deductions for property taxes and mortgage interest

- Property may increase in value
- Free to make home improvements and have pets (items typically not allowed in rentals)

Disadvantages of home ownership:

- Large down payment
- Move-in costs
- Insurance costs
- Possible for property to decrease in value
- Time, money, and energy commitment
- Repair and maintenance costs
- Property taxes can raise substantially
- Money is tied up in the home
- May take several months to sell a home if trying to relocate

In this lesson, participants learn about renting versus owning a home including the factors involved, advantages, disadvantages, expenses, and reasons to choose a rental or home ownership. Participants compare two different rental units and two different homes listed for sale.

BODY

1. Ask the participants to raise their hand if they plan on buying a house someday.
 - a. Then, ask them to think about reasons why this is a goal.
2. Tell the participants they will be completing the following activity on renting versus owning a home.
 - a. Divide the participants into groups of 3-4.
 - b. Give each group a poster board with markers.
 - c. Each group should divide the poster board in half by drawing a line down the middle. Label the left side 'rent' and the right side 'own.'
 - d. They will have five minutes to write down reasons why people would rent a home on the left side of the poster board.
 - e. Then they will have five minutes to write down reasons why people would own a home on the right side of the poster board.
 - f. Each group needs to appoint one person to read the reasons to the class after the brainstorming.
3. After the time is up, have the participants go back to their seats.
4. Have the appointed person cut poster board in half.
 - a. Tape the reasons to rent housing on one wall.
 - b. Tape the reasons to own a home to another wall.
5. Have the appointed person read the lists to the class. Discuss the answers given by the participants.
6. Hand out the *Renting vs. Owning a Home* note-taking guide 1.9.3.L1 for participants to complete during the PowerPoint presentation.
7. Give the *Renting vs. Owning a Home* PowerPoint presentation 1.9.3.G1 to understand the differences between renting and owning a home.
 - a. Slides 1-2: Introduction
 - i. Ask participants where individuals can locate housing options. Answers may include:
 1. Newspaper
 2. Internet
 3. Flyers in local places such as grocery stores
 - b. Slide 3: Reasons for making a housing choice
 - i. Discuss with participants what their personal needs are in a home. Answers may include:
 1. Space if they have a large family
 2. A safe neighborhood

3. Near their work or school
- ii. Discuss with participants what their personal wants are in a home. Answers may include:
 1. A dishwasher
 2. A laundry facility
 3. Within walking distance of entertainment such as a shopping mall
- c. Slide 4: Costs of renting
 - i. Discuss with participants that utilities may be included in or separate from the rent amount.
- d. Slides 5-6: Renting
 - i. Discuss with participants that often small repairs within an apartment will be taken care of by the property manager. The property manager may or may not assess a fee depending on the task that is needed.
- e. Slide 7: Moving into a rental
 - i. Discuss with participants that after the completion of their rental agreement the landlord will assess any damages done to the apartment. If damages beyond the normal wear and tear are noted, then the money to repair them is taken out of the security deposit.
- f. Slide 8: Advantages of renting
 - i. Ask the participants to brainstorm aloud some advantages of renting. Add to their ideas the items listed on the slide.
- g. Slide 9: Disadvantages of renting
 - i. Ask participants to brainstorm aloud some of the disadvantages of renting. Add to their ideas the items listed on the slide.
- h. Slide 10: Costs of ownership
- i. Slide 11: Home ownership
- j. Slide 12: Purchasing a home
- k. Slide 13: Advantages of ownership
 - i. Ask the participants to brainstorm aloud some disadvantages of owning a home. Add to their ideas the items listed on the slide.
- l. Slide 14: Disadvantages of ownership
 - i. Ask the participants to brainstorm aloud some disadvantages of owning a home. Add to their ideas the items listed on the slide.
- m. Slide 15: Conclusion

CONCLUSION

After the presentation, ask the participants to list any other reasons why someone would choose to rent or own a home and record the answers on the board.

Or

Have participants complete the *Renting vs. Owning a Home* worksheet 1.9.3.A1

ASSESSMENT

Participants complete the *Housing Comparison* worksheet 1.9.3.A2.

- Using the classified ads section of the newspaper or the internet, participants must find two rental units and two homes listed for purchase to compare and attach the ads to the worksheet.
- This worksheet may be completed in class or as homework.

**Note to educator:* If your class chooses to use the internet to locate rental ads, this may extend the time that it will take for the lesson to be completed. Guidance can be provided to participants regarding Web sites to use for this activity. Sites may include:

Rentals:

- www.craigslist.com
- Local newspaper
- www.rent.com

Purchase:

- www.realtor.com

MATERIALS

Renting vs. Owning a Home worksheet – 1.9.3.A1

Housing Comparison worksheet – 1.9.3.A2

Renting vs. Owning a Home information sheet – 1.9.3.F1

Renting vs. Owning a Home PowerPoint presentation – 1.9.3.G1

Renting vs. Owning a Home note taking guide – 1.9.3.L1

Poster board, markers, scissors, tape

Newspapers or internet

RENTING VS. OWNING A HOME

	Total Points Earned
30	Total Points Possible
	Percentage

Name _____

Date _____

Class _____

Housing is the largest personal expenditure

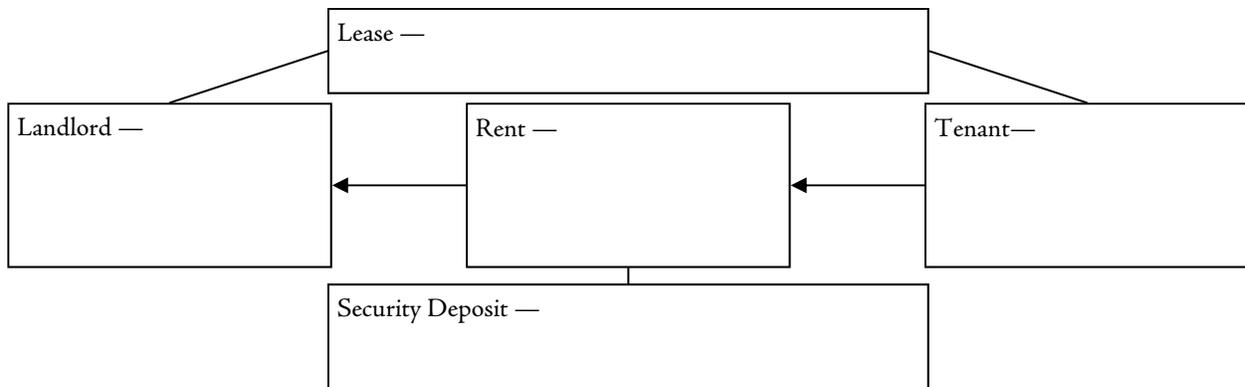
Approximately _____ of a person's income is spent on housing

Reasons for making a housing choice include:

1. _____	2. _____
3. _____	4. _____

RENTING

List 3 costs of renting
1. _____
2. _____
3. _____



List 3 advantages of renting	List 3 disadvantages of renting
1. _____	1. _____
2. _____	2. _____
3. _____	3. _____

OWNING

Home Ownership—

Equity—

Collateral—

What is the recommended purchase price an individual should pay for a home?

What percentage of the purchase price is a down payment typically?

List 3 advantages of owning	List 3 disadvantages of owning
1. _____	1. _____
2. _____	2. _____
3. _____	3. _____

RENTING VS. OWNING A HOME

	Total Points Earned
24	Total Points Possible
	Percentage

Name _____

Date _____

Class _____

Directions: Answer the following questions based upon the renting vs. owning information.

1. Housing is approximately _____ of a person's income. (1 point)
2. What is renting? (1 point)
3. Who is the landlord? (1 point)
4. When moving into a rental, what two things are people usually required to do? (2 points)
5. What are three costs of renting? (3 points)
6. Complete the chart below by listing three advantages and disadvantages of renting. (6 points)

Advantages of Renting	Disadvantages of Renting
1.	1.
2.	2.
3.	3.

7. How much is usually paid at the time of a home purchase? (1 point)
8. What are three costs of ownership? (3 points)
9. Complete the chart below by listing three advantages and disadvantages of ownership. (6 points)

Advantages of Ownership	Disadvantages of Ownership
1.	1.
2.	2.
3.	3.

HOUSING COMPARISON

	Total Points Earned
37	Total Points Possible
	Percentage

Name _____

Date _____

Class _____

Directions: Read the scenarios for a renter and a potential home buyer. Find advertisements for two rental units and two homes for sale and attach copies. Compare the two ads to each other by completing the charts and answering the questions. A minimum of seven criteria must be completed for each advertisement.

Rental Units

Scenario #1: Carrie, Martha, and Ally are looking for a place to rent for the school year starting in two months. Martha has a cat and they would prefer three bedrooms and two bathrooms. (14 points)

	Advertisement #1	Advertisement #2
Date published:		
Newspaper or Web site:		
Define any abbreviations included in the ad:		
Monthly rent:		
Upfront costs:		
Expenses covered by the rent:		
Expenses not covered by the rent:		
Advantages of the property include:		
Disadvantages of the property include:		
Restrictions on the property: (pet owners, smokers, etc.)		

1. Choose one of the two apartments which best fits the needs of the scenario. State three reasons why. (4 points)

Homes for Sale

Scenario #2: Bob and Mary are newlyweds. They work full time, have no children, and seem to have many of their friends and family coming to visit often. They would like to buy a home. Bob's annual income is \$35,000 and Mary's annual income is \$19,000. (14 points)

	Advertisement #1	Advertisement #2
Date published:		
Newspaper or Web site:		
Price of the property:		
Calculate the estimated down payment:		
Location of the property:		
Define any abbreviations included in the ad:		
Advantages of the property include:		
Disadvantages of the property include:		
Restrictions on the property:		

2. What is the maximum amount Bob and Mary should pay for a home? (1 point)

3. Choose one of the two houses which best fits the needs of the scenario. State three reasons why. (4 points)