

# Save and Invest—Owning Versus Renting

## Lesson Overview

### Description

In this lesson, students will compare owning versus renting a place to live. Beginning with a brainstorming activity, students will explore whether they would prefer to own or rent housing in the future. Students will then explore the responsibilities and risk of renting. After looking at a sample lease agreement, students will research additional lease sections not found in the sample lease agreement. Exploring the costs and benefits of owning a home, students will evaluate the effects of owning on net worth. Concluding the lesson, students will create a video and explain their decision regarding whether they would prefer to rent or own, discuss the cost and benefits of their choice and create SMART goals. An optional extension activity has been included to introduce examples of housing discrimination.

### Standards

- [National Standard in K-12 Personal Finance Education](#)
- [Texas State Social Studies Standards](#)
- [Texas State CTE Standards](#)

### Instructional Objectives

- Identify the responsibilities and risks of being a homeowner and renter.
- Compare the costs and benefits of buying a home and renting.
- Analyze the impact of buying and renting on an individual's net worth.

### Time Required

- One 90-minute class period
- Two 45-minute class periods

### Materials Required

- PowerPoint/PDF slides
- Copies of Handout 1: Guided Notes
- Copies of Handout 2: Lease Agreement
- Copies of Assessment 1: Lease or Buy Video
- Copies of Extension Activity: Examples of Housing Discrimination

## Lesson Procedures

1. **Display slide 1.** Tell students the topic of this lesson is buying versus renting a place to live.
2. **Display slide 2.** Review the instructional objectives for the lesson.
3. **Display slide 3.** Have students brainstorm answers to the question “Assuming you had the financial resources to do so, would you prefer to own or rent housing?”

- Ask students to share their answer.

*Suggested questions for student discussion:*

- Why would you prefer to rent or own?
- What are the advantages of renting or owning?
- What costs do you need to think about if you were to rent or own? Examples will vary but might include amount of money for a down payment, deposit, credit score, length of time you plan to stay in one place, size of family, pets, location, taxes, insurance.

*Classroom response strategies:*

- Have students move to separate sides of the classroom to identify whether they would prefer to rent or own.
  - Have students list their brainstorm ideas in their guided notes and then share with the class.
4. **Display slide 4.** Tell students they will explore the costs and benefits of renting.

*Suggested question for student discussion:*

- What various factors should you consider when looking for a place to rent? Examples will vary but might include: location, costs, amenities and requirements.
5. **Display slide 5.** Use the information on the slide and below to introduce concepts a person must think about when considering renting a place to live.
    - **Up-front costs:** Renters must have up-front money for deposits and other costs associated with moving into a rental property.
    - **Renters insurance:** Renters can carry insurance to protect their property while leasing.
    - **Lease agreement:** Renters sign lease agreements that outline many of their rights and responsibilities, as well as the terms of the lease they are entering into.
    - **Responsibilities:** Renters responsibilities may not be as great as if they were to own a home but will be outlined in their lease agreement.
  6. **Display slide 6.** Review the up-front costs of renting.
    - Explain to students that if renters take care of the property during their lease, they may be eligible to get some of their deposit back when they move out.

7. **Display slide 7.** Review renters insurance.

- Explain to students that renters insurance is not required by law but can be required as a term of the lease agreement.
- Monthly premiums for rental insurance are significantly less than homeowners insurance.

8. **Display slide 8.** Review the definition of landlord, tenant and lease agreements.

9. **Display slide 9.** Explain to students that lease agreements are legally binding contracts when signed and often include sections such as:

- Names of parties.
- Description of the property.
- Term length.
- Deposits and fees.
- Tenant responsibilities.
- Early termination fees.

Additional sections that can be included in a rental agreement:

- Landscaping.
- Contact information.
- Request for repairs.
- Notice before landlord entry/access to premises.
- Rules and regulations on smoking/illegal activity.
- Direct deposit.
- Subleasing.
- Move-out conditions.

*Classroom response strategy:*

- Have students list five common sections that can be found in a lease agreement in their guided notes and share which they feel are the most important to have included in the agreement.

10. **Display slide 10.** Review tenant responsibilities.

- While homeowners maintain property to protect or improve its value, the responsibilities of a renter are outlined in the lease agreement.

11. **Display slide 11.** Hand out copies of Handout 2: Lease Agreement.

- Give students time to read the lease agreement.

*Suggested questions for student discussion:*

- What were you surprised to find in the lease agreement?
- Were there any tenant/landlord responsibilities missing?

- Why would it be important to read a lease agreement before signing? Examples might include: to understand tenant responsibilities, costs associated with rent, late payments, pet fees and move-out conditions.

*Classroom response strategies:*

- Encourage students to identify tenant responsibilities by highlighting the text as they read.
- Using the internet, have students research additional sections that can be found in a lease agreement and complete their answers on page 2 of Handout 2: Lease Agreement.

12. **Display slide 12.** Tell students they will explore the costs and benefits of owning.

*Suggested questions for student discussion:*

- What costs might be associated with buying a property? Examples might include: upkeep/maintenance, monthly payment (mortgage), down payment, appraisal fees.
- Are costs for buying the same for renting? Examples will vary but might include costs for renting are less than the costs to buy and maintain a property.
- What benefits might be associated with buying a property? Examples will vary but might include appreciation of the home value, tax write-off, freedom to make changes to the property.

13. **Display slide 13.** Use the information on the slide and below to introduce concepts a person must think about when considering owning a property.

- **Property value:** The estimated price of a property.
- **Mortgage:** The loan a person gets to purchase a home.
- **Homeowners insurance:** Insurance a person purchases to protect the contents and structure of a home.
- **Equity:** The difference between the appraisal value and the balance on the mortgage loan.
- **Responsibilities of homeownership:** Homeowners have responsibilities that are unique to homeownership.
- **Risks of homeownership:** Homeowners face risks just like the owners of any financial assets.

14. **Display slide 14.** Review property value.

- Tell students that homes are appraised, or have a market value established, whether they are offered for sale or not.
- When a home is sold, lenders use appraisals to determine how much money a homeowner must provide as a down payment (cash the borrower must provide to cover the difference between the purchase price and the mortgage value).
- Assessments are also conducted by cities to determine property tax.
- Explain to students that assessments can fluctuate. When values appreciate, property taxes go up as well. This increases the property tax bill due each year and vice versa.

- There is no guarantee that the appraised or assessed value is the price a home will sell for; it is someone's opinion of the value of the home based on its size, location and real estate conditions in the market where it would be offered for sale.
- Property value is an asset on the balance sheet.

*Classroom response strategy:*

- Have students record examples of how appraisals are used in their guided notes.

**15. Display slide 15.** Review mortgage loan.

- Tell students that a mortgage is the loan a homebuyer obtains if unable to pay cash for a home. The mortgage is owned by the bank until the loan is paid in full.
- Mortgages are considered a liability on a balance sheet.
- Mortgages have terms up to 30 years in most cases.
- Most mortgage loans require a down payment. Exceptions include VA (Veterans Affairs) and USDA (United States Department of Agriculture) mortgage loans.
- Mortgagees must pay the bank (or lending institution) interest over the life of the loan.
- The interest rate charged on a loan is based on creditworthiness, or likelihood of repayment, of borrowers.
- The interest charged on a primary mortgage can be deducted from a person's income tax each year, lessening the tax burden.

**16. Display slide 16.** Review homeowners insurance.

- Homeowners insurance protects homeowners from many types of loss that can occur.
- Losses can be a result of natural disasters, fire, crime or other circumstances.
- Mortgage companies require homeowners to keep homeowners insurance for as long as there is a loan against the house. This is to protect the mortgage company in the event the home is destroyed while the mortgagee still owes money.
- It is important to read carefully what is covered by homeowners insurance because it varies by policy.

*Classroom response strategy:*

- Have students summarize in their guided notes what homeowners insurances covers and why it would be important to have it.

**17. Display slide 17.** Review equity.

- Equity is the difference between the appraisal value and the balance on the mortgage loan.
- Because property value is an asset and a mortgage is a liability, the equity in a home is what contributes to the growth of net worth.

- Equity can increase if the value of the home increases or as the remaining value on the mortgage decreases.
- In 2009, negative equity peaked at 26 percent of mortgaged residential properties. As of second quarter 2020, only 3.2 percent of mortgaged properties had negative equity in the United States. For more information, visit [www.corelogic.com/insights-download/homeowner-equity-report.aspx](http://www.corelogic.com/insights-download/homeowner-equity-report.aspx).

*Classroom response strategy:*

- Have students describe positive and negative equity in their guided notes.

18. **Display slide 18.** Have students brainstorm answers to the question “What would happen to equity if the appraisal value decreases? How would this affect a homeowner’s net worth?” Answer: Equity and net worth would both decrease.

*Classroom response strategy:*

- Have students list their brainstorm ideas in their guided notes and then share with the class.

19. **Display slide 19.** Review equity examples.

*Suggested questions for student discussion:*

- How is it possible to have a home valued less than the balance on a loan? Examples might include: changes in the housing market, homeowner borrowed against the home with a home equity loan and then there was a decline in the market.
- How would negative equity affect a homeowner’s net worth? Answer: Net worth would decrease.

20. **Display slide 20.** Review responsibilities of homeowners.

- There are many responsibilities associated with homeownership including: paying the mortgage, taxes and insurance, maintaining the home to protect its value and routine upkeep.
- Some homeowners can perform maintenance on their own, while others bear the cost of paying people directly for the maintenance.
- Some homes are built in locations that place special restrictions on what homeowners can and cannot do to their property.
- When making a purchasing decision, homeowners should consider all the restrictions and responsibilities they are taking on.

*Suggested questions for student discussion:*

- What chores or responsibilities are you required to perform at home? Examples will vary but might include: mowing the lawn, taking out the trash, cleaning your room, washing windows.
- Have you ever helped with a major project at home? If so, what type? Examples will vary but might include: painting, landscaping, remodels or repairs.

*Classroom response strategy:*

- Ask students if homeowners' responsibilities are the same as renters'. Have students record their answer in their guided notes, then share.

21. **Display slide 21.** Review risks of homeownership.

- Ask students to name the risks associated with homeownership. Examples will vary but might include: that the house is destroyed, the property value falls or a homeowner is forced to sell unexpectedly.
- If property values fall, homeowners could see their equity, and therefore, net worth, decrease.
- By being responsible for maintenance, if there were a large uninsured event, the homeowner would be responsible for the repairs.
- If a homeowner needed to sell the home quickly or in an unfavorable real estate market, they might be forced to accept a price below what the home would be worth otherwise.

22. **Display slides 22-25.** Review learning objectives with students.

*Classroom response strategy:*

- Have students fill in the blanks for costs and benefits of renting and owning in their guided notes.

23. **Hand out Assessment 1: Lease or Buy Video**

- Have students create a video and share/upload their video. If your students do not have access to technology, they can turn in their script using the template found on Assessment 1. Lease or Buy Video.

24. **Optional—Hand out Extension Activity 1: Examples of Housing Discrimination**

25. **Additional Resources:** The Federal Reserve Bank of St. Louis: [Page One Economics, Focus on Finance edition: “Renters and Homeowners Insurance: When the Unexpected Happens”](#)



## Lesson 4—Handout 1

# Guided Notes

### Lesson 4 vocabulary

**Renters insurance**—Insurance to protect personal property while leasing.

**Landlord**—The owner of property that is leased or rented to another.

**Tenant**—One who rents or leases a property from a landlord.

**Lease agreements**—Rental agreements.

**Property value**—The estimated price of a property.

**Mortgage**—A loan a homebuyer obtains if unable to pay cash for a home.

**Homeowners insurance**—Insurance a person purchases to protect the contents and structure of a home.

**Equity**—The difference between the appraised value and the balance on the mortgage loan.

Brainstorm and write down whether you would prefer to own or rent housing if you had the financial resources to do so.

List five common sections that can be found in a lease agreement.

Besides estimating the property value, how else are appraisals used?



## Lesson 4—Handout 1

# Guided Notes (Cont.)

What does homeowners insurance cover? Why would it be important to have homeowners insurance?

Describe positive and negative equity.

Brainstorm and list what would happen to equity if the appraisal value decreases. How would this affect a homeowner's net worth?

Are the responsibilities of homeowners the same as renters? Explain.



## Lesson 4—Handout 1

# Guided Notes (Cont.)

Fill in the blanks below:

### Renting Costs Versus Benefits

#### Costs

- Mortgage.
- \_\_\_\_\_
- Homeowners insurance.
- Property taxes.
- \_\_\_\_\_
- Down payment.

#### Benefits

- Potential to build worth through equity.
- \_\_\_\_\_
- \_\_\_\_\_
- Income tax deductions.

### Owning Costs Versus Benefits

#### Costs

- \_\_\_\_\_
- No equity or opportunity for an increase in net worth.
- Restrictions on activities per lease agreements.
- \_\_\_\_\_

#### Benefits

- \_\_\_\_\_
- No risk of not being able to sell.
- No property taxes.
- \_\_\_\_\_



## Lesson 4—Handout 2

# Lease Agreement



### Residential Lease Agreement

THIS LEASE AGREEMENT is made and entered into this \_\_\_\_\_ day of \_\_\_\_\_, 20 \_\_\_\_, by and between \_\_\_\_\_ hereinafter referred to as "Landlord" and \_\_\_\_\_ hereinafter referred to as "Tenant".

1. Tenant shall pay as rent the sum of \$ \_\_\_\_\_ per month, due and payable monthly, in advance, no later than 5:00 p.m. by the fourth day of every month. Tenant further agrees to pay a late charge of \$ \_\_\_\_\_ for each day rent is not received after the fourth of the month to the Landlord regardless of the cause, including dishonored checks, time being of the essence. An additional Service Charge of \$ \_\_\_\_\_ will be paid to Landlord for all dishonored checks.

2. Tenant agrees to use said dwelling as living quarters only for \_\_\_\_\_ adults and \_\_\_\_\_ children, namely:

\_\_\_\_\_ and to pay \$50.00 each month for each other person who shall occupy the premises in any capacity.

Tenant agrees to accept the property in its current condition and to return it in "moving-in clean" condition, or to pay a special cleaning charge of \$185.00 upon vacating the premises. The carpets are to be professionally cleaned. If you prefer that we have the carpets cleaned for you, the charge will be billed to you. Carpet cleaning costs are in addition to cleaning charge.

3. PETS ARE NOT ALLOWED WITHOUT WRITTEN PERMISSION FROM LANDLORD. As additional rent, Tenant agrees to pay a non-refundable pet fee of \$25.00 per month for each pet. All pets on the property not registered under this Lease shall be presumed to be strays and will be disposed of by the appropriate agency as prescribed by law. A Pet Agreement, if applicable, is attached hereto as Exhibit "B", and incorporated herein by reference. PET NAMES AND DESCRIPTION: \_\_\_\_\_

4. Tenant will be responsible for payment of all utilities, garbage, water and sewer charges, telephone, gas, association fees or other bills incurred during the term of this Lease. Tenant specifically authorizes Landlord to deduct amounts of any unpaid bills from the Security deposit upon termination of this Agreement.

**IMPROVEMENTS TO PROPERTY**—Any improvements to the property made by tenant inside or outside must not be removed without written permission from the property manager. This includes landscaping, shrubs, flowers, walkways, out buildings such as storage sheds and playhouses, etc. Any interior improvements the tenant may have made to the property must also remain. Improvements include but are not limited to the following: installation of ceiling fans, book shelves, shelving, light fixtures, etc.

5. If Tenant leaves said premises unoccupied for 15 days while rent is due and unpaid, Landlord is granted the right hereunder to take immediate possession thereof and to exclude Tenant therefrom, removing all Tenant's property contained therein and placing it into storage at Tenant's expense.

6. Tenant is responsible for all plumbing repairs including faucets, leaks, stopped-up pipes, frozen pipes, water damage, and bathroom caulking.

**YOU SHOULD READ AND UNDERSTAND THIS LEASE. IT IS A LEGAL AND BINDING CONTRACT.**

Signing below means you have read the Lease, are in full agreement with it and have received a copy of the contract.

ACCEPTED THIS \_\_\_\_\_ DAY OF \_\_\_\_\_ 20 \_\_\_\_,

at \_\_\_\_\_.

(Address, City and State)

Tenant \_\_\_\_\_

Landlord, Property manager or Agent \_\_\_\_\_



## Lesson 4—Handout 2

# Lease Agreement (Cont.)

The example residential agreement is not an all-inclusive list of items that can be found in a lease agreement. Below you will find additional sections that were not mentioned in the sample lease agreement.

**Instructions:** Select three common sections that can be found in a lease agreement below. Research each section to learn more. After your research is complete, summarize and answer the questions for each section.

- Landscaping.
- Landlord duties: repair and maintenance.
- Early termination.
- Access to premises.
- Rules and regulations on smoking/illegal activity.
- Direct deposit.
- Use of common areas.
- Subleasing.

1. Summarize research for \_\_\_\_\_ section.

Why would a tenant want to have this included in the lease agreement?

What are the advantages of the landlord including these in the lease agreement?

2. Summarize research for \_\_\_\_\_ section.

Why would a tenant want to have this included in the lease agreement?

What are the advantages of the landlord including these in the lease agreement?

3. Summarize research for \_\_\_\_\_ section.

Why would a tenant want to have this included in the lease agreement?

What are the advantages of the landlord including these in the lease agreement?



## Lesson 4—Assessment 1

# Lease or Buy Video

**Instructions:** Create a one-to-two-minute video to explain whether you would prefer to lease or buy a property at the age of 25. Explain the benefits and costs you will need to consider if you lease or buy, and include what short-term and long-term goals will help you achieve this goal. Use the template below to create a script for your video.

### Video Template

1. Introduce yourself.
2. Explain why you would choose to lease or buy. Provide personal examples that justify your choice.
3. What did you consider when making this choice? Why does it matter to you?
4. Explain the benefits and costs of your choice.
5. Include which risk concerns you the most and why.



## Lesson 4—Assessment 1

# Lease or Buy Video (Cont.)

6. Create short-term and long-term goals and explain how they will help you achieve your goal to lease or buy at the age of 25.

**Specific**

**Measurable**

**Attainable**

**Relevant**

**Timely**

### Short-term SMART goals

**S** \_\_\_\_\_  
**M** \_\_\_\_\_  
**A** \_\_\_\_\_  
**R** \_\_\_\_\_  
**T** \_\_\_\_\_

### Long-term SMART goals

**S** \_\_\_\_\_  
**M** \_\_\_\_\_  
**A** \_\_\_\_\_  
**R** \_\_\_\_\_  
**T** \_\_\_\_\_



## Lesson 4—Extension Activity

# Examples of Housing Discrimination

The U.S. Department of Housing and Urban Development (HUD) Office of Fair Housing and Equal Opportunity (FHEO) works to eliminate housing discrimination and promote civil rights and economic opportunity through housing. FHEO enforces fair housing laws. One of its roles is to investigate complaints of housing discrimination.

**Instructions:** Read through the examples of housing discrimination from HUD below. After reading each example, answer the questions on the next page.

### Discrimination Isn't Always Obvious—Example #1

John, who is a Black man, speaks to a prospective landlord on the phone about leasing an apartment. On the phone, the landlord seems eager to rent to John, but when John meets with the landlord in person to fill out an application, the landlord's attitude is entirely different. A few days later, John receives a letter saying that his application was denied because of a negative reference from his current landlord. John is surprised because he never had problems with his landlord, and his landlord swears she was never contacted for a reference. John suspects that the real reason he was denied the apartment was because he is Black, so John files a complaint with HUD. HUD investigates and it turns out John is right; the landlord's files show a pattern of discrimination because of race and color.

### Discrimination Isn't Always Obvious—Example #2

Jane is a Muslim woman who wears a hijab. Jane walks into the leasing office for a large apartment building because she saw a sign in the building's window advertising several available units. Jane introduces herself to the leasing officer, who immediately says there are no units available. Jane asks to be put on the waiting list, but she never receives a call. Jane files a complaint with HUD because she suspects that the leasing officer does not want to rent to her because she is Muslim. HUD investigates and it turns out Jane is right; other employees of the building give HUD information that substantiates Jane's claim of religious discrimination.

### Steering Is a Form of Discrimination

John, who is an Asian man, meets with a real estate broker to discuss purchasing a house for his family. When John names the neighborhood that he is interested in, the broker asks John if he is sure that his family will feel comfortable there. The broker tells John that she has a wonderful listing in another neighborhood where there are more "people like them." When the broker takes John to see the house, John notices that the residents of the neighborhood appear to be mostly Asian. John files a complaint with HUD because steering someone to a certain neighborhood because of his race is a form of race discrimination.



## Lesson 4—Extension Activity

### Examples of Housing Discrimination (Cont.)

#### Reasonable Accommodations Are Required for Persons with Disabilities

John, a person with a disability who uses a wheelchair, views a condominium he is hoping to purchase in a new multistory building. When John arrives, he finds there are no accessible parking spaces in the building's parking lot. When John tries to enter the unit, his wheelchair can barely fit through the door and he bangs his arms on the way in. Inside the unit, the thermostat and light switches are all too high for him to reach. The building has a fitness room, but he cannot look at it because the only way to get to the fitness room is to go up steps. John files a complaint with HUD because failing to comply with accessibility requirements is a form of disability discrimination.

#### Rules Against Children Are Discriminatory

John has three teenage children. John's building has a patio with picnic tables, and one day John's children decide to have lunch there with some of their friends. The next day, John receives a notice from the homeowners association informing him that the building rules say that the patio is for adult use only and that he needs to make sure his children do not violate the building rules. John files a complaint with HUD because building rules that discriminate against children are a form of familial status discrimination.

#### Mortgage Lending Discrimination Is Illegal

Jane and John are filling out an application for a mortgage at their local bank. Their loan officer notices that Jane is visibly pregnant and asks whether she will be taking maternity leave. When Jane says yes, the loan officer informs the couple that they either have to apply without Jane's income or wait until she returns from leave. "I'm sorry," the loan officer says, "but I've seen too many women change their mind about going back to work." Jane and John file a complaint with HUD because the bank's policy discriminates based on sex and familial status.

#### Discrimination in the Conditions of Housing Is Illegal

John recently moved to the United States from Mexico. One day, John sees that there is a new tenant in the apartment next to his, so he welcomes her to the building. John's neighbor comments on how nice everyone in the building seems, especially the building manager who offered to waive her security deposit because she seems like a good person. John is surprised because the building manager was short-tempered with him and said that John's accent made him hard to understand. John later asks around and finds out that the building manager has waived fees and deposits for other tenants he likes but not for him or other persons from Mexico. John files a complaint with HUD because providing different terms and conditions to tenants because of national origin is illegal discrimination.

