PFL Academy

Teacher Guide: Chapter 7.1 — Renting vs. Owning Housing Decisions

OVERVIEW

TIME	MATERIALS	PREREQUISITES
45-50 Minutes	Student Activity Packet, Calculator	Identity Theft Prevention (L-29)

LESSON FLOW

5 min **THE CHALLENGE**

- Read Amy's scenario—emphasize the competing factors she faces.
- Ask: "What would YOU do in Amy's situation? Why?"
- Poll class for initial reactions, then revisit at end of lesson.

10 min **CORE CONCEPTS**

- Clarify equity—the "forced savings" aspect of ownership.
- Explain the 5-7 year rule for buying (to cover transaction costs).
- Distinguish upfront costs: rent (1-2 months) vs. buy (10-25% of price).

25-30 min **APPLY IT**

- **Part A (12 min):** Scenario analysis—discuss life-stage factors.
- **Part B (8 min):** Calculate totals in cost comparison table.
- **Part C (10 min):** Personal priorities ranking and reflection.

10 min **CHECK YOUR UNDERSTANDING**

- Review Q1—5-7 year rule and why it exists.
- Return to Amy's scenario—has the class opinion changed?
- Discuss Q5 reflections on changing housing needs.

DIFFERENTIATION

Support

- Create a visual T-chart of rent vs. buy advantages.
- Pre-calculate the totals in Part B for reference.
- Use a simplified decision tree for scenario analysis.

Extension

- Research local housing market and compare rent vs. buy costs.
- Calculate break-even point using online rent-vs-buy calculators.
- Analyze the impact of different down payment amounts on monthly costs.

ANSWER KEY

Part A: Housing Scenario Analysis

Scenario 1 (Alex): RENT. Key factors: Limited savings ($10,000 not enough for down payment + emergency fund), existing debt ($25,000), career uncertainty requiring potential relocation, early career stage. Renting preserves flexibility and avoids tying up capital.

Scenario 2 (Martinez): BUY. Key factors: Substantial savings ($40,000), dual stable incomes ($120,000), long-term location commitment (10+ years), school district stability for children. They'll build equity and benefit from stable housing costs.

Scenario 3 (Dana): RENT (for now). Key factors: Planned relocation in 7 years, transitional life stage, good savings but should preserve for retirement. Buying now then selling creates transaction costs; rent until retirement location is chosen.

Part B: Monthly Cost Comparison

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RENTING TOTAL:
$1,200 + $15 + $0 + $0 + $150 = $1,365/month

BUYING TOTAL:
$1,100 + $100 + $250 + $300 + $200 = $1,950/month

DIFFERENCE: $1,950 - $1,365 = $585/month more for buying
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4. Monthly difference: $585 higher for buying. Upfront costs for buying: Down payment ($25,000) + Closing costs (~$7,500) = **$32,500 total upfront**.

Part C: Personal Housing Priorities

Priorities favoring RENT: Flexibility to move, lower monthly costs, lower upfront costs, no maintenance. Priorities favoring BUY: Building equity, ability to customize. Rankings will vary based on student circumstances.

Check Your Understanding

1. C (5-7 years or more) — This timeframe allows buyers to recoup closing costs, build equity, and potentially benefit from appreciation.

2. The Martinez family has: (1) stable careers with no relocation risk, (2) a 10+ year commitment allowing equity building and cost recovery, (3) sufficient savings for down payment plus emergency fund, (4) the need for school district stability.

3. Amy should prioritize RENTING because: (1) potential relocation in 2-3 years doesn't allow time to recover buying costs, (2) her savings would be depleted by a down payment, leaving no emergency fund.

4. Equity is the difference between your home's value and what you owe. As you pay down your mortgage, you own more of your home. It's like "forced savings" and can be accessed through sale or home equity loans.

5. *Responses should reflect thoughtful consideration of career stability, family plans, location preferences, and financial readiness. Look for recognition that housing needs change with life circumstances.*

COMMON MISCONCEPTIONS

Misconception	Clarification
"Renting is throwing money away."	Rent provides housing, flexibility, and no maintenance responsibility. Homeownership has costs that don't build equity either (interest, taxes, insurance, maintenance).
"Buying is always a good investment."	Homes can lose value; transaction costs are high; and if you move within 5-7 years, you may not recoup your costs. Location and timing matter

	significantly.
"I need 20% down to buy a home."	Many loans allow 3-10% down, but lower down payments mean PMI (private mortgage insurance) and higher monthly costs. 20% is optimal but not required.