

Lesson 6.3 Costs of Owning or Renting a Home

Goal: Compare fixed and variable costs associated with owning a home and renting a home

RECALL

Costs of Owning

- Purchase of a home includes a cash down payment and a mortgage loan which is paid, with interest
- Owners must pay property tax, a percentage of the estimated value of your home
- Most owners buy home insurance to protect their home and its contents
- Condo owners usually pay a monthly fee to cover operating, maintenance, administrative and improvement costs
- Owners pay for all utilities, maintenance, repairs and services they use

Costs of Renting

- A tenant uses a property owned by the landlord and pays rent for the use of the property
- Utilities and services such as heat, water, electricity, and parking **may or may not** be included in the rent, depending on the rental agreement
- The landlord will pay for repairs
- The tenant usually pays for phone, cable, and Internet service
- The tenant may wish to buy tenant insurance to protect his/her belongings

Example 1 Calculating Annual Expenses

Determine how much each expense will cost for one year.

a) Monthly rent of \$665

$$\begin{aligned} & \$665 \times 12 \\ & = \$7980 \end{aligned}$$

b) Bi-weekly mortgage payments of \$856.21

$$\begin{aligned} & \$856.21 \times 26 \\ & = \$22261.46 \end{aligned}$$

c) Semi-annual home insurance payments of \$546.75

$$\begin{aligned} & \$546.75 \times 2 \\ & = \$1093.5 \end{aligned}$$

Example 2 Total Monthly Housing Costs

Determine the total **MONTHLY** housing cost for the following expenses:

- Bi-weekly mortgage payment of \$771
- Annual property taxes of \$3588
- Quarterly Water/Sewer bill of \$75 (equal billing)
- Monthly house insurance of \$85
- Monthly gas/hydro bill of \$177 (equal billing)
- Monthly Internet/Cable bill of \$110

Convert non-monthly to monthly

Mortgage:

$$\sim \$771 \times 2 = \$1542$$

Property Tax:

$$\$ \frac{3588}{12} = \$299.$$

Water/Sewer:

$$\text{Quarterly} = \frac{1}{4} \text{ year} = 3 \text{ months}$$

$$\frac{\$75}{3} = \$25$$

Total Monthly

Mortgage:	\$ 1542
Property Tax:	\$ 299
Water/Sewer:	\$ 25
Insurance:	\$ 85
Gas/Hydro:	\$ 177
Internet/Cable:	\$ 110
TOTAL:	<u>\$2238</u>

Example 3 Comparing Rental Properties

Sarah will be moving to Sarnia to attend Lambton College.

- a) What is the annual rent for the apartment? Is it more or less expensive than residence?

$$\$625 \times 12 = \$7500$$

- b) What additional expenses might Sarah have in setting up the apartment that she would not have for the residence room?

- Food
- Furniture
- Cable

- c) What, if any, benefits might there be to living in the apartment? To living in residence?

Apartment

- more space/independence

Residence

- Cheaper
- Closer to school
- meal plan

- d) Which option would you recommend? Justify your answer.

→ Residence! (for the reasons above)

Option 1

- 1-bedroom apartment within walking distance from the college
- Rent: \$625 a month, including heat, electricity, water, and parking
- Must sign a 1-year lease

Option 2

- College residence
- Share a room and washroom with another student
- Room includes: beds, desks, shelves, a small fridge, a microwave, cable service (but no TV), and local telephone service
- Shared kitchen available
- Cost: \$6800 for September to April, including utilities and an \$1800 meal card

Example 3 Additional Renter's Costs

Renters will typically pay first and last month's rent before they can move in. Trevor is moving with his wife Sasha to a new home they are renting for \$1950 per month. Before they can move in, they must pay first and last month's rent, a deposit of \$200 for their electricity, and a deposit of \$175 for the natural gas that heats their home. Before they can move into their home, how much will they have to pay?

Initial costs:

$$\begin{array}{r}
 \text{Rent} \rightarrow \$1950 \times 2 = \$3900 \\
 \text{Elec. Deposit} \rightarrow \$200 \\
 \text{Gas. Deposit} \rightarrow \$175 \\
 \hline
 \$4275
 \end{array}$$

∴ They will have to pay \$4275.