

Financial Literacy Lesson: Real Estate Investing



Grade Levels: 9 - 12th

Lesson Purpose:

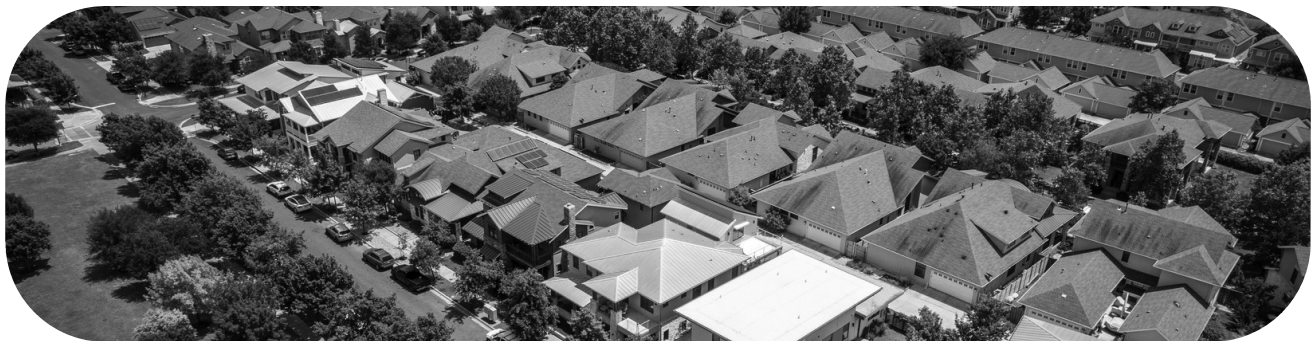
To further the discussion on investing and how purchasing real estate can be one avenue to making additional income.

Objective:

For students to understand the various ways to invest and make money through real estate.

Teacher Lesson Outline:

- **Planned to A.T. Introduction Video (5:43 min)**
- **Five Ways to Get Paid pt.1**, Teacher led, Student Sheet **(20 min)** Print off this sheet for students to define different ways in real estate they can invest. * You may print this page front/back with Five Ways to Get Paid Scenarios Sheet.
- **Five Ways to Get Paid Scenarios**, (Student Sheet) **(25 min)** Students will read through different scenarios and identify the potential profit or investment made.
- **Exit Ticket - (5 min)** Students will reflect on different ways they are able to make money through real estate



Five Ways to Get Paid pt.1 Answer Key:

1. **Equity:** the part of your property that is yours after you've paid back any money you borrowed to get it.
2. **Renting out a room:** If you lend a part of your house to someone and receive rent.
3. **Being a landlord:** A person who owns a house, apartment, or building and rents it out to other people to live in or use.
4. **Investing in a fix and flip:** Putting money into something to make more money later.
5. **Selling property:** When an owner decides to sell their property.
 - **Equity Scenario:** total equity \$75,000, Bonus: \$9,375
 - **Renting Out a Room Scenario:** \$1,200 per year
 - **Being a Landlord Scenario:** \$7,000 in equity
 - **Investing in a fix and flip:** Q1: \$130,000 total investment, Q2: \$120,000 final profit
 - **Selling property:** Q1: Equity \$146,000 , Q2: \$140,000, Bonus: \$120,860



START : Essential Question(s)

Q: Do you know of someone who rents or has purchased a home?

Answers will vary

Q: Do you have a goal of purchasing a home when you get older ?

Answers will vary

Q: Do you think owning a home can make you money or cost you money?

Answers will vary

You can make money by purchasing a home. A few ways are keeping a home for several years past purchase and letting it build up equity or how much your house is worth on the market since you purchased it. Another is renting your home to tenants for profit.

QUICK Check in:

Q: Do you think owning a home is considered an asset or liability?

Education Standards Addressed:

SSEPF1 Analyze major life decisions using economics-based decision-making skills.

d. Apply a rational decision-making model to evaluate other major life choices like employment opportunities, renting a home vs. buying, selecting a mortgage, and buying a car.

Five Ways to Get Paid pt.1 (Teacher led, Student Sheet)

Purchasing a home or property can be both an asset and a liability. Depending on various factors like poor location or a decrease in value, real estate can be a poor investment! But we are going to discuss five ways real estate can be an asset. As a reminder an asset is something that makes profit or money for you. A liability is something that does not. Let's define real estate and look at five ways real estate can be a great investment.

Real Estate: Land and buildings where people live or work. If a property is for sale there is a possibility that you can purchase it.

Let's look at some definitions that are important when it relates to real estate.

1. **Equity:** the part of your property that is yours after you've paid back any money you borrowed to get it.
2. **Renting out a room:** If you lend a part of your house to someone and receive rent.
3. **Being a landlord:** A person who owns a house, apartment, or building and rents it out to other people to live in or use.
4. **Investing in a fix and flip:** Putting money into something to make more money later.
5. **Selling property:** When an owner decides to sell their property.

The best thing about investing in real estate is being able to use any money that you made or profits to reinvest. Some ways that you could reinvest your money are purchasing stocks, mutual funds, or even MORE real estate. CHA CHING.



Five Ways to Get Paid Scenarios (Student Worksheet)

Directions:

Now that we've defined each of the ways you can make money through real estate lets look at some real life examples of each definition.

1. Equity Scenario:

I am a homeowner and have owned my home for the last 8 years. I purchased my home for \$250,000 in 2014. My home is now worth \$325,000 because of the changes in the housing market. How much equity or profit have I earned from being a homeowner over the last 8 years?

Current home value: _____ — Original purchase price: _____ =

Total Equity: _____ for 8 years

Bonus: total the equity made per year : _____

2. Renting Out a Room Scenario:

I am a homeowner and have owned my home for the last 8 years. I purchased my home for \$250,000 and my monthly mortgage is \$1,500, not including utilities. Since I have rooms that I am not using and I'm not really at home much since I travel for work, I decided to rent out two of my bedrooms for \$800 per month. How much money does the homeowner profit each month from renting out two rooms?

Monthly rent: _____ — Mortgage: _____ = monthly profit _____

How much does the owner profit in a year? _____

3. Being a Landlord Scenario:

I am a new homeowner and I just purchased a duplex for \$250,000. When I purchased the duplex, I invested \$11,000 to make renovations or improvements to the units. I thought it was a smart purchase because it has four units. I live in one and rent out the other three to tenants. I charge all three tenant \$2,000 each for rent. When they all moved in, they had to pay first month's rent, \$2,000 and last month's rent, and a \$2,000 security deposit, totaling \$6,000. I was able to collect \$18,000 when I moved all three tenants in. This means the \$11,000 I spent in my original investment was made back to me. How much equity or additional money did I make?

Amount collected: _____ — Amount invested: _____ =

Equity made: _____

4. Investing in a fix and flip

I am a real estate flipper. I buy homes that no one wants, fix them up, and sell them back on the housing market. I spotted a run down home that was on the market for \$100,000. I estimated that if I put \$50,000 of renovations, it would increase the price of the house to be worth \$250,000. I negotiated the price with the owner and ended up buying it for a lower price of \$80,000. I made the \$50,000 renovations and sold it four months later for \$250,000.

Q1: How much did the owner spend to purchase and renovating the home?

Purchase price: _____ + Renovation cost: _____ =

Total investment: _____

Q2: How much did the owner profit by renovating and selling the home for \$250,000?

Selling price: _____ — Total investment: _____ =

Final Profit: _____

5. Selling a property

I am a homeowner and have owned my home for the last 8 years. I purchased my home for \$250,000. My home is now worth \$325,000 because of the changes in the market. I still owe \$179,000. I decided to sell my home for \$319,000.

Q1: How much equity or amount the home increased in price did the owner accumulate while owning the home?

Current home value: _____ - Mortgage balance: _____ =

Equity: _____

Q2: Would does the owner profit by selling the home?

Sale price: _____ — Mortgage balance: _____ =

Profit: _____

Bonus: When you sell a house you typically go through an agency. Calculate the final price if you have to pay \$19,140 to the real estate agents?

Final price: _____

Exit Ticket:

List 2 ways that investing in real estate can be an asset.

1.

2.
