

Plan To Buy Yourself a House



At some point in your life, you'll stop living with your parents (no really, it happens!) and you'll need to find a place of your own. For 99% of you that means renting a place to live, however there is no reason you can't start planning your next investment venture today. Buying a house is no joke, and requires a substantial commitment in your part to save for the 20% down payment you'll need to secure it (minimum down payment across Canada is 5%, but for conventional mortgages 20% is typically required). So let's start crunching the numbers! Again,

- 1) You have no money saved for a down payment
- 2) You desperately want to live in B.C.
- 3) Your parents are NOT giving you a house or money to pay for one
- 4) Your parents WILL co-sign for a mortgage, and are not concerned about how much you're actually spending (.....which is likely a total lie, but run with it!)
- 5) You work part time at a minimum wage job

Step 1 – Find a house

Ok, now that the stage is set let's start looking. First and foremost, this DOESN'T HAVE TO BE REALISTIC, however many of you buying a house at some point in the future so making it realistic will give you a better sense of what you'll be paying for in the future. Regardless of realism, let's follow these first steps:

- 1) Go online and look for a house. One of the more popular housing sites is mls.ca but you can look in a number of different spots (e.g. other sites, newspaper)
- 2) PRINT OFF THE LISTING FOR YOUR HOUSE! If it's from a newspaper, just bring me the cut out of the listing, but otherwise print off the listing for your house and make sure you including it in your assignment.

Step 2 – Find a Mortgage

Perfect, easy part is done. Now it's time to figure out how to pay for it. For THAT, the only answer you currently have is a MORTGAGE. Follow these steps:

- 3) You have a bank account, which means your bank knows a little bit about you. Why not take a look online and see what your current bank offers for mortgages (this should be easier than it was for car loans). If you don't like your bank's offers, look elsewhere!
- 4) PRINT OFF THE MORTGAGE RATE YOU PLAN ON USING. Whatever you find and are happy with, make sure you print it off so that I can see it exists! It should clearly show the interest rate and the term of the mortgage that it's offered for (anywhere from 20 years to 35 years typically).

Step 3 – Find your payments

Alright, now you're getting somewhere! Time to figure out what your payment schedule will be. For that, you'll need the price of your house, the amount a 20% down payment would be, the interest rate with compounding rate, the term of your mortgage, and the number of payments you'd like to make (monthly, semi-monthly, weekly, bi-weekly, daily?!?!?!). This calculation is exactly the same as previous calculations for loans so use that TVM Solver of yours and see how much you'd pay! BE SURE TO SHOW YOUR CALCULATIONS!

- 5) Write out the calculations to show what your payment will be to take the mortgage down to ZERO by the end

Step 4 – Nice, your house increases in value!

Unlike typical cars (e.g. not old Jaguars...) houses tend to APPRECIATE in value! In Vancouver, that rate was 3.9% per year! This means what you bought your house

for in 2015 will be far different from what it's worth in 2040! So let's find out what the future value of your house will be!

- 6) Calculate the future value of your house at an appreciation rate of 3.9% per year (hint, treat this like an INVESTMENT where the original price of your house is the principal value.

Step 5 – Alright, this is awesome....now it's time to save!

Great! We found out there's money to be made on housing, so it's time to figure out when we can afford it! For this we need to look back at that 20% down payment. As mentioned previously, you have a minimum wage job! Though this will not always be the case, let's imagine that the most you can save is \$200 a month in a tax-free savings account compounded at 3.0% monthly.

- 7) Calculate how long it will take you to save your down payment if you deposit \$200 a month in a tax-free savings account compounded at 3.0% monthly.

Step 6 – Ok, you've got your time frame, is it reasonable?

You've calculated your timeframe before you have enough for your down payment, now talk about how reasonable that length of time is!

- 8) Discuss how feasible it is to save the required 20% down payment to purchase your selected house. Specifically, will you be able to? If not, what could you do to make it possible (again, parents are OUT for this activity 😊)? Would you consider changing your house selection to make it possible (i.e. why did you pick the house to begin with)?

DUE DATE: _____