

TRISH AND SCOTT'S BIG ADVENTURE: AN INVESTIGATION OF REGIONAL HOUSING COSTS

INTRODUCTION

This lesson has you explore differences in regional housing costs, determine the percentage of gross income spent on housing, assess the impact of housing costs on a relocation decision and recognize wages and housing costs are prices.

LEARNING TARGETS--STUDENTS WILL:

- Explore differences in regional housing costs
- Determine the percentage of gross income spent on housing
- Assess the impact of housing costs on a relocation decision
- Recognize wages and housing costs are prices that influence people's behavior

PROCESS

Computer Work

Consider the situation of Trish and Scott, a young couple with two small children living in Annapolis, Maryland. Both work. Scott is a family counselor and Trish is a production manager for a small computer company. Trish has just upgraded her education and is thinking about several new job offers, all of which require the family to relocate out of state. In Annapolis, Trish and Scott live in a three-bedroom, two-bath home on a .5 acre lot. The house is 15 years old and is 2,000 square feet in size. Their monthly house payment is \$1,050, and their combined gross income is \$75,000 per year (Trish earns \$40,000 and Scott earns \$35,000). Did you know that according to the Mortgage Bankers Association, 28% of your monthly income is considered the maximum amount you should spend for housing expenses (including loan payment, taxes, and insurance) and your total monthly debt payment cannot exceed 36%? What percentage of gross income is Trish and Scott's house payment? _____%



To make the calculation, you need two pieces of information, 1) the house payment amount, and 2) income earned each month. You have the house payment amount of \$1,050, and you can calculate monthly income by dividing Trish and Scott's yearly income by 12.

In order to make the move, Trish and Scott agree that they need a similar sized house in a friendly neighborhood, close to schools. Let's assume that they can sell the Maryland house for \$185,000, payoff their mortgage, and have \$30,000 left over for a down payment on a new house. A mortgage is a special type of home and property loan that gives you legal ownership while you pay down the debt. Failure to pay off the loan, also known as defaulting, results in ownership of the home or property to be returned to the bank and a nasty credit history for the people who default.

Your job today is to examine the housing costs associated with one of Trish's job offers.

Select one of the following cities...

- Springfield, Illinois
- Bangor, Maine
- Billings, Montana
- Austin, Texas
- Raleigh-Durham, North Carolina
- Salt Lake City, Utah
- Minneapolis, Minnesota
- Boise, Idaho
- San Francisco, California
- Wichita, Kansas

1. Within the city, find Trish and Scott a potential house similar to the one they had in Annapolis, Maryland, using the [National Association of Realtor's](#) web site (TYPE: realtor.com). Remember, you are looking for a 2,000 square foot, three-bedroom, two-bath home. Select a potential house and record the asking price: \$ _____, square footage _____, number of bedrooms _____, bathrooms _____, age of the house _____ years, and any other important characteristics _____.
2. Calculate Trish and Scott's monthly house payment, using the [National Association of Realtors](#) mortgage calculator (drop down under "Mortgage"). To make the calculation, you need some additional data from Trish and Scott. Assume that they want a 30-year mortgage and can borrow the money for the house at the interest rate reported at the NAR web site. Also enter the \$30,000 down payment. Calculate and record the monthly payment for the house you select: _____.
3. How do the housing costs compare between Annapolis and the new city?
4. Based on the 28% rule and \$75,000 gross income, can Trish and Scott afford the house you selected? *[Divide the new monthly payment by Trish and Scott's monthly income.]* _____
5. Remember that Trish has recently upgraded her education and as a result has been offered these new job opportunities. An increase in education and job skills should improve Trish's ability to negotiate a higher salary. Assume Trish is offered a 25% salary increase. Calculate and record the family's gross income, assuming that Scott's salary remains unchanged. _____
6. Now head over to salary.com to the "Work and Life" drop down menu to "Cost of Living Calculator to determine how much Trish and Scott need in gross income in the new city to maintain their quality of life. Record the amount. _____. Is a 25% salary increase enough for Trish and Scott to be able to make it, financially speaking, in the new location? YES / NO ? Be prepared to share and discuss your conclusion with the rest of the class.