**2.4 Buy, Rent or Lease?**

**By the end of the lesson you will be able to:**

1. Define *lease* and *equity*
2. Solve problems by analyzing renting, leasing or buying options

**Lease** – A \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ for purchasing the use of property, such as a building or a vehicle, form another for a specified period. Similar to renting, but generally for a longer period and sometimes with a down payment.

**Equity** – The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ between the value of an item and the amount still owing on it; you can think of this as the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

For example, if you make a $25,000 down payment on a $250,000 house, $225,000 is still owed and $25,000 is the equity.

**Example 1**

Lance started his own construction business 2 years ago. His business has grown quickly, and his home office is no longer big enough. He is considering these two options:

1. He could sign a 3-year lease on office space, with monthly rental payments of $2000, and a refundable damage deposit of $2000. There is a penalty for breaking the lease.

1. He could purchase a house for $285,000 and renovate so it could be used as an office. A 5% down payment is required, and he would take out a 15-year mortgage at 4.5%, compounded semi-annually, with monthly payments. Assume appreciate of 2% yearly.

1. What are the costs of **leasing** over 3 years? 15 years?

1. What are the costs of **buying** over 15 years?

1. What is the predicted worth of the home after 15 years?

1. What do you recommend for Lance?

**Example 2**

Amanda uses a vehicle for work, on average 12 days each month. Currently, she is renting a vehicle when she needs one. The advantage is that there is no maintenance work for her to do but she also has to arrange to pick up the vehicle and drop it off each time she rents it. She is wondering if there is a more economical choice and considers her options:

1. She could lease a vehicle, which requires a down payment of $4000 and lease payments of $380 per month. She would need insurance at $1220 per year (which could be paid monthly) and would have to pay for repairs and maintenance, which would average about $50 a month. For the 4-year lease, she is looking at no equity in the vehicle at the end of the term, since the car would belong to the leasing company.

1. She could buy a vehicle for $32,800 and finance it for a 4-year term at 3.5% interest, compounded monthly. She would have the same insurance, repair and maintenance costs she would have with leasing. However the equity of the vehicle would be considered an asset.

1. She could continue to rent at $49.99 per day with unlimited kilometers.

Which option would you recommend to Amanda?

