**Buy v Rent - Time Value of Money**

Order 1599743

Description

Prepare and deliver a spreadsheet outlining the following.  Make sure you show your work! Remember that Rebecca is in Canada, where mortgages are compounded on a semi-annual basis, rather than the monthly compounding we see in the U.S. but we will still use monthly compounding. Use the facts in the case to drive your variables. 1.  What is Rebecca's monthly mortgage payment if she buys the condo? 2.  Determine Rebecca's monthly costs if she buys rather than if she continues to rent.  Make sure to account for all cash flows and the opportunity cost (you can use $475 as the monthly opportunity cost - this represents what it's costing her to use the money rather than keeping it invested).  3.  Is the larger or smaller than her rental costs and by how much? 4.  What is the principal balance on the mortgage at the end of:      (a) Year 2      (b) Year 5      (c) Year 10     Remember that although the loan is a 10 year term, the amortization period is longer... 5.  Determine Rebecca's potential "net" future gains or loss if she sells at the end of year 2, year 5, and year 10 (so you'll have three answers for each scenario) under each of the following scenarios.  Make sure you include costs of sale!    (a) The condo price remains unchanged from when Rebecca purchased.    (b) The condo price drops 10% in the first 2 years, then increases back to the original purchase price at the end of year 5, then increases by 10% at the end of year 10.    (c) The condo price increases annually by 2% for each of the next 10 years.    (d) The condo price increases annually by 5% for each of the next 10 years. 6. If you were Rebecca, what decision would you make and why?  In addition to the quantitative issues identified and discussed above, what qualitative issues would you consider?  Name at least three non-financial reasons you might lean one way or the other. 7. How does your answer to #6 change if the mortgage was amortized over 10 years instead?  Provide a summary of the analyses in 1-5 above - assume all other facts remain stable.