

Student _____

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Class _____

Teacher _____

CHAPTER 11 Real Estate and Other Investments

Reviewing Key Terms: Complete the Sentence



DIRECTIONS: Using terms from the following list, complete the sentences below. Write the letter of the term you have chosen in the space provided.

- | | | |
|------------------------|-----------------------------------|--------------------|
| A. direct investment | D. syndicate | G. precious metals |
| B. commercial property | E. participation certificate (PC) | H. precious gems |
| C. indirect investment | F. financial leverage | I. collectibles |

1. An investment in a group of mortgages that have been purchased by a government agency is a(n) _____.
2. A trustee is appointed to hold legal title to a property on behalf of an investor or group of investors in a(n) _____.
3. The owner holds legal title to the property he or she purchased in a(n) _____.
4. Valuable ores, such as gold, platinum, and silver are examples of _____.
5. Rough mineral deposits (usually crystals) that are dug from the earth by miners and then cut and shaped into brilliant jewels are _____.
6. A(n) _____ is a temporary association of individuals or business firms organized to perform a task that requires a large amount of funds.
7. The use of borrowed funds for direct investment purposes is called _____.
8. Rare coins, works of art, antiques, stamps, rare books, paintings, and other such items are known as _____.
9. Land and buildings that produce lease, or rental, income are _____.

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Understanding Key Concepts



DIRECTIONS: On a separate sheet of paper, answer the following questions.

1. What financial advantage does a person who has a home mortgage enjoy?
2. Antonio bought a small apartment house and collects rent from three tenants. He would like to buy a larger apartment house and collect even more money. When do many investors start buying larger properties?
3. Michelle wants to invest in real estate but does not have enough money to buy property on her own. She has heard of hybrid real estate investment trusts (REITs) and wants to know what they are. How would you explain them to her?
4. Explain how a limited partnership works. Include the terms *general partner*, *limited partners*, and *participation units*.
5. List four regulations that the federal government requires real estate investments trusts to follow.
6. Why are participation certificates risk-free real estate investments?
7. Peter has \$10,000 to invest but will need it in six months to pay for college tuition. Would you recommend that he use his money to buy land? Why or why not?
8. What must an investor do to make a profit from investing in precious metals?
9. What are the risks of investing in gemstones?
10. Compare the collecting process before and after the introduction of auctions on the Internet.

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Activity 2: Real Estate Investments and Inflation



SKILLS ACHIEVED

Reading, Writing, Math, Acquiring and evaluating information, Organizing and maintaining information, Interpreting and communicating information, Selecting technology, Applying technology to task

OBJECTIVE: Research and evaluate the rise in overall costs and the rise in housing costs.

In Chapter 11, you learned about the advantages and disadvantages of investing in real estate, either directly or indirectly. Would real estate have been a good investment over the last ten years? To figure this out, you need to compare the rise in the cost of housing to the inflation rate.

Look in a world almanac or other reference resource to find the rise in the consumer price index (the standard measure of inflation) for the years 1990–1999. You can also find information on the Internet—the Web site of the Bureau of Labor Statistics of the Department of Labor is a good place to start. Enter these figures in the first column on the next page. Then use the same or another source to find the average yearly increase for the same years for housing. If you were a real estate investor, these figures would reflect how much the value of your property had increased. Write these figures in the second column.

When you have recorded the information, use the graph grid to create a line graph showing the changes in both sets of data during the 1990s.

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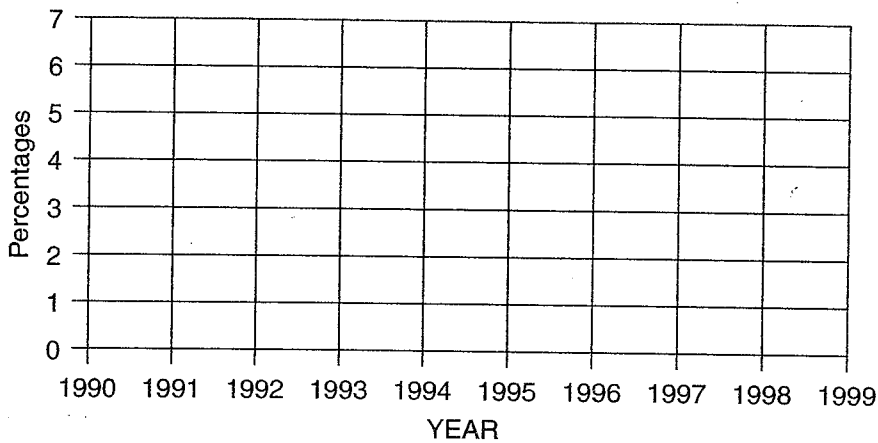
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CPI % Increase

Shelter Cost % Increase

1990 _____	1990 _____
1991 _____	1991 _____
1992 _____	1992 _____
1993 _____	1993 _____
1994 _____	1994 _____
1995 _____	1995 _____
1996 _____	1996 _____
1997 _____	1997 _____
1998 _____	1998 _____
1999 _____	1999 _____



Would real estate have been a good investment during the 1990s? Why or why not?

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Math-Building Skills: Analyze the Return on a Real Estate Investment



Felice bought a duplex apartment at a cost of \$150,000. Her mortgage payments on the property are \$940 per month, \$121 of which can be deducted from her income taxes. Her real estate taxes total \$1,440 per year, and insurance costs her \$900 per year. She estimates that she will spend \$1,000 each year per apartment for maintenance costs. The tenants will pay for all utilities.

DIRECTIONS: *In the space below, use this information to figure out the rent Felice must charge for each apartment to break even.*

1. What monthly rent must she charge for each apartment to break even?

2. What must she charge to make \$2,000 in profit each year?

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Finance Online: Collecting Online

How valuable can a sports card get? In 2000, a baseball card featuring Honus Wagner, a Pittsburgh Pirate from the 1900s, sold for \$1.1 million. A more recent card—a picture of Mickey Mantle issued by the Topps Card Company in 1952—was valued at \$16,000 in 1999.

Most baseball cards will never command these prices, but because the initial investment is about twenty cents, the rate of return on many cards can be huge. For this activity, use an Internet search engine to find other valuable baseball cards. Visit as many Web sites as necessary to find answers to the items.

Keywords Used	Site Names	Web-Site Addresses	Information Offered

1. Name two players with cards valued at more than \$20. Also note the names of the companies that issued the cards, the years of the cards, and the cards' prices.

2. List three other kinds of baseball memorabilia sold on the Internet.

3. What other sports have collectible cards offered on the Internet?

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Your Financial Portfolio Worksheet

Collecting Treasures



1. List five things you might enjoy collecting that will keep their value or possibly be worth more in the future.

- a. _____
- b. _____
- c. _____
- d. _____
- e. _____

2. Choose one and describe why it appeals to you.

3. Describe how an expert could appraise its value:

- a. Age: _____
- b. Quality: _____
- c. Rarity: _____
- d. Popular demand: _____

4. Why would this collectible be interesting for you to keep?

5. Do you think it would be a good or bad long-term investment? Explain why.

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Software
Activity
(Optional)

Spreadsheet Application

Choosing Investment Alternatives



OBJECTIVE: Compare and assess the potential rewards and risks associated with investment alternatives.

Practice Situation

Raju's parents gave him \$2,000 as a graduation gift. He is very interested in the real estate industry and wonders whether he could invest in that area.

His father suggests that Raju might invest his money in a mutual fund participation certificate. He can buy into a mutual fund offered by the Federal Home Loan Mortgage Corporation for \$2,000. He will be charged a 1 percent commission on the purchase of the certificate. The guaranteed return on this investment is 5.5 percent annually. Raju plans to cash out any interest he earns in the mutual fund as it is paid to him. Assume the participation certificate will increase in value by 11 percent in four years.

As a second alternative, Raju researched the possible purchase of Oracle Corporation common stock, currently selling at \$80 per share. Recent news featured the Oracle Internet platform and forecasted heavy use by Web developers worldwide. Oracle paid dividends of \$3.87 per share for the last year. Assuming this dividend will be paid at the same level over the next four years, calculate the annual dollar returns that Raju can expect for this option. Raju will have to pay a \$50 fee for this stock purchase. In researching this stock, he finds that Oracle stock has increased in value by 6 percent every year for the past five years. Assume that the Oracle stock value continues to increase by 6 percent each year.

Complete the spreadsheet shown on page 127 to help Raju analyze his investment opportunities and potential returns.

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Investment Costs:	Mutual Fund Participation Certificate	Oracle Stock
Investment amount		
Plus Commission		
Total Investment Costs		
Annual Anticipated Returns:		
Annual interest or dividend earned Year 1		
Annual interest or dividend earned Year 2		
Annual interest or dividend earned Year 3		
Annual interest or dividend earned Year 4		
Total earned		
Potential Value at Year 4:		
Market Value of investment at Year 4		
Summary Information:		
Potential selling price		
Less investment cost		
Profit from sale of investment		
Plus interest or dividend returns		
Potential profit and interest from transaction		

Spreadsheet Directions

1. Start your spreadsheet software program and open problem SA11.xls.
2. Record Raju's costs involved with each investment opportunity to determine his total investment costs.
3. Next, compute the annual returns expected for each investment. Remember that Raju does not intend to reinvest interest earnings.
4. To compute the potential value of each investment at Year 4, review the data presented for the anticipated increase for the mutual fund and the stock. Insert formulas to compute these increases in value.
5. Finally, determine the potential profits and interest from each transaction based on the data presented.

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6. Perform your calculations and complete the spreadsheet, then save your work to a new file labeled SA11***.xls. (Replace *** with your initials.)
7. Print out a copy of your work if your teacher has instructed you to do so.

Interpreting Results

1. How many shares of Oracle stock could Raju purchase with his graduation gift?

2. What would the total investment cost be for the mutual fund participation certificate?

3. What amount of dividend income does Raju expect to earn over the four years that he plans to hold the shares of Oracle stock?

4. If the assumption for each investment's potential value were realized, what total profit and interest for each investment would be earned?

Drawing Conclusions

1. Assuming that Raju wants to invest his money in an investment that carries less risk, which investment would you recommend? Explain.

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SELF-ASSESSMENT QUIZ

DIRECTIONS: Circle the letter of the choice that best completes the statement or best answers the question.

1. An example of a direct investment is a (A) home mortgage (B) real estate syndicate (C) real estate investment trust (D) Ginnie Mae certificate.
2. In a syndicate organized as a limited partnership, responsibility for all the partnership's liabilities belongs to the (A) limited partners (B) general partner (C) tenants (D) federal government.
3. An investment in a real estate syndicate can be (A) depreciable (B) deductible (C) tax-exempt (D) diversified.
4. REITs might invest the participants' money in any of the following items *except* (A) construction loans (B) financial instruments (C) properties (D) mortgages.
5. Which of the following are examples of participation certificates? (A) Maes and Macs (B) U.S. Treasury Bonds (C) REITs (D) real estate syndicates
6. Generally, an indirect investment in real estate is (A) easily converted into cash (B) a hedge against inflation (C) only for the wealthy (D) a good tax shelter.
7. The price of gold might fall when (A) war threatens (B) the government seems unstable (C) countries make peace (D) inflation soars.
8. In January 2005, which of the following precious metals was most valuable? (A) gold (B) platinum (C) palladium (D) rhodium
9. The world's largest diamond was found in 1905 in (A) the United States (B) Great Britain (C) South Africa (D) China.
10. Drawbacks of finding collectibles on the Internet include the (A) inability to comparison shop (B) lack of a wide range of sellers (C) inability to examine items for flaws (D) frequently charged buyer's commissions.