

One house, two locations and three possible decisions¹

Oi Lin Cheung
Indiana University East

LaCalvince Simpson
Indiana University East

ABSTRACT

After Steve Hutchison's wife had been given a new job offer, the couple were very excited. However, the excitement did not last long. The new job location was about ninety minutes from where they lived and was essentially in a much bigger city. There were several significant decisions that they would have to make shortly. On the very top of their list was the decision on whether they would want to move to the bigger city. If they decided to move, it would then be followed by two more decisions: one would be whether to buy or rent a new home while the other would be whether to sell or rent out their current home. While Steve was searching for information related to these decisions, he kept asking himself whether it would make more financial sense to stay put living in the current smaller city or move on to live in the bigger city. He was also wondering if there were anything other than financial factors that they would need to take into consideration in making their decisions.

Keywords: buy versus rent, sell versus rent out, home buying process, home rental activities, home selling strategy

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¹ This is a decision case. All information (except for which sources are otherwise stated) used in this case was obtained from the decision maker whose identity is disguised. All personal information of the decision maker and his wife as well as some numbers (where necessary) are modified to protect the privacy of the decision maker and the confidentiality of his information. Teaching notes to this case are available. For those instructors who are interested in obtaining them, please contact ocheung@iue.edu

INTRODUCTION

“After all the hard work for these months, I finally get the job I have long been wanting,” said Steve’s wife to him on January 5, 2018. He was very happy for her. However, their excitement died down before long. It was, in turn, followed by a bunch of question marks in their minds. The location of the new job was a ninety-minute drive one-way from where they lived. Their biggest decision would be where they would live and what they were going to do with their house if they decided to move to a new location closer to her workplace.

STEVE AND HIS WIFE

Steve Hutchison and his wife were originally from Washington. He had worked as a business reporter there for over six years and then taught Journalism in Texas for two and a half years before moving to Richmond, Indiana in May 2010. Richmond was not a very big city despite being the seat of Wayne County in East Indiana. Steve’s wife was a nurse practitioner in pediatrics for over five years in Washington. She then moved to Texas with him and worked as a nurse practitioner in the same field there. Steve was hired as a Journalism lecturer starting in June 2010 by a college located in Richmond. His wife again moved to Richmond with him. Although Steve’s wife accepted a job offer from Faith Clinic there even before he got his, her position was not specific to her field of expertise. And, she also failed to find one in such a field in the city of Richmond.

Steve’s wife had a master’s degree in nursing and obtained the certification in pediatric health from the Pediatric Nursing Certification Board. However, she was only hired as a licensed nurse practitioner to work with patients on primary care. In principle, as other nurse practitioners (MedlinePlus, 2021), her major job tasks included but were not limited to taking patients’ history, performing physical exams on patients and ordering laboratory tests and procedures for them if needed. In addition, she had to provide diagnoses and treatment plans to patients as well as write prescriptions to them and coordinate referrals for them. In addition to the mismatch in job responsibilities to her expertise, she found the working environment, organization structure, and culture of Faith Clinic not working very well for her. As a result, she had a hard time blending in with her colleagues. Given all these factors, she did not seem to be able to derive much satisfaction from her work. Over the seven and a half years living in Richmond, she kept looking for another job that was more closely related to her education in the proximity of the city. She spent a lot of time researching and finally found a pediatric nurse practitioner position advertised by Pigeon Clinic in Indianapolis, the state capital of Indiana. Then, she sent in her application, went through the interviews, and was finally given the job offer.

With this new job, Steve’s wife would have a pay raise of \$20,000 from \$45,000 to \$65,000. Pigeon Clinic would also pay her a usual \$6,500 one-time bonus, in return of having her work for them for at least three years. On the other hand, Steve’s wife would have to return the \$6,500 in full if she quit working for Pigeon Clinic within her first three years working for them. She would work for Pigeon Clinic on child health cases only. Besides being more closely

related to her expertise, this position would provide her better career prospects: with a better chance of promotion, higher pay, and more employee benefits.

Steve and his wife were in and approaching their mid-forties respectively. They were in a marriage of eight years. According to Steve, his wife was a laid-back person. She tended to stick to things, not like changes very much. She did not plan things either. She just went by the day. She was also not a very well organized person. On the other hand, Steve was a very sociable person who was very adaptable to changes. He enjoyed planning things out and hated to get things ready just at the last minute. He would also stay as organized as possible.

Steve had an adult daughter and two grandchildren. His wife did not have any children. Therefore, they did not have any financial dependent. Steve just supported his daughter and his two grandchildren as needed or as wished. On the other hand, the couple had two dogs – four and eight years old. They had the dogs for their entire lives. Unfortunately, the older one had a heart condition since 2017. It required that they pay \$150 each quarter to deal with that condition. Steve and his wife both liked to travel throughout the United States, and they had visited other countries as well, such as Mexico, Puerto Rico, and Canada. They would prefer to remain in this lifestyle for the next ten years or so.

Steve had already obtained a long-term teaching position from his college, making \$85,000 a year. He was very contented with his job, yet, his employment contract needed renewal every five years. Steve loved teaching students and enjoyed working with his colleagues. He also liked the flexible work schedule. Unless he had a class meeting, student appointment, or committee meeting, Steve could work most of the time from home. On the other hand, his wife worked 9 to 6 Monday through Friday for Faith Clinic. With the acceptance of her new job offer, she would work for longer hours from about 9 to 7:30 but for four days only, Tuesday through Friday for Pigeon Clinic.

THEIR VICTORIAN HOME

When the couple first moved to Richmond, they purchased a 988-square-foot Victorian home with two bedrooms and one bathroom at \$70,500 in June 2010. The second bedroom served as Steve's home office/guest room. There were a living room and a dining room, as well as a basement of same square footage. There was also a small deck overlooking their little backyard where they could enjoy the evenings after work. They could also grow some vegetables and herbs in their backyard during summer. In winter, when it was not too cold, they could light a fire in their small fire pit to enjoy the evenings out there in their backyard.

The cozy single-family home was built in 1941 on 0.11 acre of land using materials including brick, stone, timbers and stucco infill. The Tudor Revival style house had a steep roof with front-facing gables. Its facade was substantially constructed with cross-timbers. Its tall and narrow windows were beautifully installed with multi-pane stained glasses. The house's non-symmetrical form, together with several massive decorative chimneys, made it one of a kind in their neighborhood in Richmond.

The basement was unfinished when they bought the house. Steve added new fixtures, some new coats of paint and new flooring to the basement. Since he was a business reporter before he started his teaching career, he knew where to get the materials at a very reasonable

price. It only cost him \$200 for the materials for this renovation. As he was not in a hurry to finish the project, he did not hire anybody to do it. Instead, he did it himself. He learned the technical skills he needed from YouTube and practiced them on the project. He worked just a few hours on this project over some weeks. He spent in total about seventy-two hours spanning over six months on this project after they settled down in Richmond.

Although this home did not need further major renovation in the coming ten to fifteen years, Steve expected that it would probably cost him about 1% of the original purchase price per year to do the upkeep inside and outside of the home. The property card of his home maintained in the Wayne County Public Records indicated that the assessed value of the home had increased by an average of 1.5% each year over the past three years since 2014 (\$62,500 as of 03/01/2014 to \$65,300 as of 05/02/2017). He thought this 1.5% would be a good proxy and projection for the annual appreciation of the value of his home.

DECISIONS TO MAKE

As the Hutchisons had lived in much bigger cities before moving to Richmond, they enjoyed the more vibrant life and convenience that big cities could offer. The ideal location for them was in between city and suburb of downtown. It was a quite different and relatively more difficult situation for them at this point, as compared with when they moved to Richmond. Back then, they were lined up with jobs for both in the same small city. However, they were now facing the would-be situation of having their workplaces apart by about a ninety-minute drive. Table 1 provided some differences between the real estate and leasing markets in Indianapolis. Steve collected some information about a rental property at the location of their preferred choice, alongside with the estimate of their current living expenses living in Richmond and their expected living expenses in Indianapolis, as shown in Table 2.

The rental property was an apartment unit of 1,228 square feet with two bedrooms and two baths of the medium apartment complex named Sunshine Apartments in the Broad Ripple Village area – twenty minutes north of downtown Indianapolis. There were bars, clubs, galleries, restaurants, shops nearby. Among other shops were Indy CD & Vinyl (a record shop), Artifacts (an art gift shop) and Haus Love (an interior design shop). The apartment type was termed Court in the complex, which was very pet-friendly. The apartment unit featured an open concept kitchen and lots of sunlight from the almost floor to ceiling windows on multiple walls. New appliances were also present. Sunshine was doing a special move-in promotion. Unlike other landlords who would, in general, required the payment of an additional month's rent as a security deposit, Sunshine waived the security deposit from new renters.

At the same time, the couple was also considering to buy a home in the Broad Ripple Village area where the home value had risen by an average of about 3% per year since the beginning of 2010 as implied by the Zillow Home Value Index (see Table 1). Although Steve's wife would get a considerable amount of pay raise, as they each still had a significant balance of student loan (see Table 2), they did not want to stretch each of their pennies. Even though Steve was qualified for the 10-year forgiven repayment program, the couple was still paying \$800 per month for their student loans. Thus, they would feel comfortable if they could cap their monthly mortgage payment at \$1,500 and a utility bill at \$250 per month. They understood that the

location and size of their new home would raise their homeowner insurance premium. They would be happy if that could stay around \$110 per month. In search of a new home to purchase, they would particularly factor these three numbers in their screening of contenders. Steve had a credit score of 700 while his wife had a little lower one at 600. However, they had good confidence that they would be able to secure the required mortgage for 30 years at about 4% per year (see Table 1). Currently, the Hutchisons had about \$20,000 in savings earning 0.01% interest per year. Thus, they had a little concern about whether this amount would be enough for the down payment and closing costs of their new home in Indianapolis if they were to buy one.

If they decided to move to Indianapolis, since housing there was much more expensive than in Richmond, Steve planned on downsizing a little bit. He would sell his furniture and buy smaller new ones. He estimated that he would be able to sell his furniture at \$1,000. The new furniture would likely cost him \$1,500. Steve would move the rest of their stuff himself bit by bit as he would still be working in Richmond. He would move the smaller items on his way back home from work. He planned on asking some help from the family of his wife and some friends when moving the bigger stuff. Then, he would need to rent a U-Haul truck at \$50 for the move.

The Hutchisons filed their income taxes jointly, and they were in the 25.23% tax bracket (being federal at 22% for joint plus a flat rate of 3.23% for the Indiana state). Like anybody who was in need of making housing decision, the Hutchisons had no doubt done a lot of research (Kapoor, Diabay, Hughes, Hart, 2019). As Steve was someone who liked to plan things out, he started asking his wife, “Will it make more financial sense to stay put living in Richmond or move on to live in Indianapolis? Other than financial factors, what do we need to take into consideration in our decisions?”

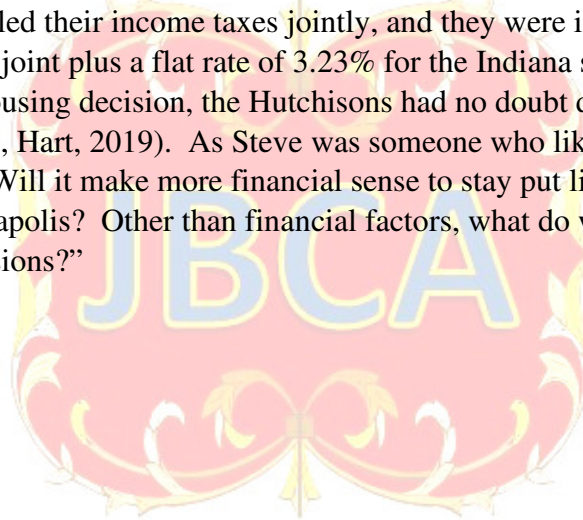


Table 1. Some Statistics between Richmond and Indianapolis, Indiana

	Richmond	Indianapolis	Sources of Information
County	Wayne	Marion	
Political Position	County seat of Wayne	County seat of Marion; state capital of Indiana	StatsIndiana (2019a)
Geographic Area (square miles)	23.997	361.446	USBC(2019)
Population 2016 (the most recent available estimate)	35,664	855,164 (36,503 for Broad Ripple in 2017)	StatsIndiana (2019b) and Point 2 Homes (2019)
Home Price - Median List Home Price December 2017	\$79,000	\$145,000 (\$217,450 for Broad Ripple Village)	Realtor.com (2019a, 2019b & 2019c) and Zillow (2019)
Home Price - Median Sold Home Price December 2017	n/a	\$138,000 (\$202,500 for Broad Ripple Village; Zillow Home Value Index (ZHVI) for 2 bedrooms in Broad Ripple Village rose from \$155,100 in 2010-01 to \$193,700 in 2018-12)	
Property Tax Rate 2017	3.5558 % (RICHMOND CITY - WAYNE TWP)	2.5609% (INDPLS-WASHINGTON TWP where Broad Ripple Village was located)	StatsIndiana (2019c)
The January 2018 Monthly Average Commitment Rate And Points On 30-Year Fixed-Rate Mortgages was 4.03%			Freddie Mac (2019)

Table 2. Current Living Expenses in Richmond versus Expected Living Expenses in Indianapolis

	Current Expenses Living in Richmond (per month)		Expected Expenses Living in Indianapolis (per month) - Apartment Renting	
Home	Mortgage payment (with \$5,000 down, purchased at \$70,500) for current balance of \$61,000 at 3.25% p.a.	\$535	Rent payment (including also renter insurance, pet fee, storage fee, water, sewer and trash, parking as well as administration fee)	\$1,860
Home Insurance	Homeowner Insurance	\$64		
Utilities	Electricity, Trash and Sewer	\$200	Electricity	\$115
Internet and Cable	High-speed internet, basketball and football channels on TV	\$270	High-speed internet (\$80) and basketball channel (\$35)	\$115
Car Payment	Steve: Truck (value \$10,000)	\$230	Steve: 4-door sedan (value \$19,000) in anticipation of longer drive	\$290
	His wife: Complex SUV (value \$10,000)	\$350	Wife: Complex SUV (value \$10,000)	\$350
Gas Consumption	For both vehicles (Steve: 10 miles drive to work; His wife: 1.5 miles to work; Had to drive to anywhere)	\$300	For both vehicles (Steve: 78 miles drive to work; His wife: 10 miles to work; Major necessities were within walking distance)	\$300
Auto Insurance	For both vehicles	\$112	For both vehicles	\$112
Grocery	Limited choices to what they needed/wanted	\$400	Would be able to access to what they needed/wanted and with greater varieties and lower prices at the proximity	\$300
Restaurant	A limited number of choices in Richmond, less motivated to dine out	\$150	More cuisine was available in Indianapolis (even at their preferred location); would be more willing to dine out	\$200
Entertainment	Movies at the movie theatre twice a month	\$75	Fewer movies at the movie theatre but a higher price for each	\$75
	Movie by streaming service from Netflix and Hulu	\$20	Movie by streaming service from Netflix and Hulu	\$30
Dog Medical Expenses	For the older dog @\$150/quarter	\$50	For the older dog @\$150/quarter	\$50
Pet Walking Fee	Steve walked the dogs	\$0	Steve would be no longer able to walk the two dogs as long hours of work and commute time combine. Would need to hire somebody to walk the dogs twice a week for \$25 each time for 30 minutes	\$200
Student Loan Payment	Each had a balance of \$110,000	\$800	Each had a balance of \$110,000	\$800
Amenities	None	\$0	Clubhouse, fitness center, regular activities for residents organized by the property managers.	\$0

LEARNING OUTCOMES

Upon completing this assignment, students will be able to

1. Analyze if moving is the best alternative
2. Evaluate a rent versus buy decision
3. Evaluate a rent out versus sell decision

DISCUSSION QUESTIONS

1. How much would it cost Steve and his wife to move from Richmond to Indianapolis? (LO1)
2. What were the other factors that might affect the couple's moving decision? (LO1)
3. Would it be better that Steve and his wife moved to Indianapolis, or would it be better that they stayed in Richmond? Justify your answer. (LO1)
4. If Steve and his wife decided to move to Indianapolis,
 - (i) what were the advantages and disadvantages to them in renting or buying a home? (LO2)
 - (ii) would "rent" or would "buy" be a better option for them? (LO2)
 - (iii) and if they decided to rent a home there, what would be their rental activities? (LO2)
 - (iv) and if they decided to buy a home there, what would be their home buying activities? (LO2)
 - (v) what were the advantages and disadvantages of renting out or selling their home in Richmond? (LO3)
 - (vi) would "rent out" or would "sell" be a better option for them? (LO3)
 - (vii) and if they decided to rent out their Richmond home to others, what would they need to do to rent it? (LO3)
 - (viii) and if they decided to sell their Richmond home, what would they need to do to sell it? (LO3)

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