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Chapter 20: Real Estate and Other Investments

Check Your Answers: Section Assessment

Section 1

Review Key Concepts
1. Your own home; vacation homes which may be used as rental property; and duplexes, apartments, land, and commercial property used for rental income.

2. Syndicates are temporary associations organized to perform a task that requires a large amount of funds; REITs combine money from many investors to invest in real estate; a high-risk mortgage has the potential for a high return; and participation certificates are safe investments in mortgages that have been purchased by a government agency.

3. Advantages include: protection against inflation; you can combine money to purchase commercial property; you can be a limited partner. Disadvantages include: illiquidity; if the economy is in decline the value may decrease; difficult to build a diversified portfolio; property management can be a full-time job.

Higher Order Thinking
4. People who invested in real estate for the tax advantages rather than profitability saw a decrease in the value of their investments. The Act likely contributed to the end of the 1980s real estate boom. Investors with sinking real estate values became desperate to unload their properties.

21st Century Skills
5. Create Media Products Advertisements will vary but should stress the limited financial commitment and the guaranteed nature of the investment.

Mathematics
6. Financial Leverage Without borrowed funds = ($165,000 - $140,000)/$140,000 = 17.9%; With borrowed funds = $140,000 - $125,000 = $15,000; Interest paid = $5,500 × 3 years = $16,500; Profit = ($165,000 - $140,000) - $16,500 = $8,500; Return = $8,500/$15,000 = 56.7%