



## Building Success 101

*Q: How do I figure my home's equity?*

A: The best way to determine your home's equity is to hire a professional assessor to determine its current market value based on the recent sales prices of comparable homes in your area. Then, subtract what remains on your mortgage loan principal from that assessment to find your home's equity. For instance, an assessed value of \$800,000 minus an outstanding mortgage loan amount of \$300,000 equals \$500,000 in available equity. Make sure your assessor compares apples-to-apples, and ask for an estimate of what "extra" features or improvements to your home might impact its assessed

## Building Capital: Your Home as Asset

There are a lot of reasons people buy houses. It might be a combination of location, the home's feel, or floor plan. Or perhaps it's to accommodate a certain lifestyle or household dynamic, such as children or multiple generations living under one roof. Maybe buyers are relocating for a job, looking for a smaller home in retirement, or attracted to the amenities of a community.

Another reason is the investment potential of real estate. Strip away the emotional reasons for buying and owning a home. You are left with the opportunity to reap financial rewards from the property's increased value over time. This is an attractive proposition and one of the safest bets around.

And the best part is, smart and market-savvy homeowners don't have to do much, and sometimes for very long, to see their investment blossom. The key is to understand how property values are determined and how to choose a new house that will appreciate in value to create equity. Equity opens new possibilities to leverage that "profit" for a variety of other lifestyle choices.

Simply, a property's value is determined based on what the market bears for homes (and land) of similar size and basic features. Like-sized houses in a neighborhood, throughout a municipality, and even nationwide are compared on the basis of total square footage, number of bedrooms and bathrooms, garage types and size, and other "objective" features and permanent fixtures.

Luxuries, such as a whirlpool tub, upgraded appliances, or hardwood floors, are rarely considered by professional or public assessors to determine a home's value; those features, however, can be critical in how much additional value a potential buyer would place on the property should it come up for sale and should not be completely discounted in an equity calculation.

But resale value is different than appreciation or home equity. To determine if a new house is, indeed, a solid investment over a period of time, it is critical to look at the track record of appreciation among comparable homes -- ideally within the same neighborhood, as well as within the overall metropolitan statistical area (MSA) in which it is located. It's also important to consider current market conditions and plans for growth ... and specifically how those factors will impact housing supply and demand. For example, in some areas, certain types of homes (such as move-up family homes) appreciate faster because there is a low supply and a high demand.

value.

A number of industry groups make it their business to keep on top of local market conditions. Consider asking a trustworthy, professional builder, or real estate agents, local homebuilder's groups, mortgage lenders or brokers. All of these groups can provide valuable insight into which types of houses, and which locations are enjoying steady price appreciation now and likely to continue into the future. Once a home's value actually increases, the equity affords several options.

One common strategy is to refinance a mortgage, take out a second mortgage, or open a line of credit against the home's increased value. That money can be used for a variety of lifestyle choices, such as, making home improvements, paying for college, or investing in retirement. A thorough understanding of all options available for tapping home equity is critical to making the right choice. Mortgage lenders and brokers are especially adept at exploring those options and terms.

Typically, homebuyers look first for the right home at the best price in a great neighborhood. This is as it should be. An "investment-first" mentality with a new home purchase has risk. Considering a home's potential appreciation and eventual equity, especially in the short term, is a game often played by professional investors. That being said, buying smart -- from a builder who respects the supply-and-demand dynamics of his market -- will serve homeowners looking to reap the financial rewards of buying a new house.

Warm regards,

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