

BOOK 1

TEACH ME ABOUT *equity*

The Secret to Building Wealth
and Funding Lifestyle

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CHAPTER 01

Introduction to Home Equity

Understanding home equity is essential for any homeowner or prospective property buyer. It's a term often used in the real estate world, but what does it truly mean, and why is it important? This chapter aims to demystify the concept of home equity and set a solid foundation for the subsequent chapters.

At its core, home equity is the portion of your property that you truly own. It's the market value of your property minus any loans against it, such as a mortgage. For example, if your home is valued at \$950,000 and you owe \$650,000 on your mortgage, your home equity is \$350,000. It represents a financial asset that forms part of your net worth.

But how does one acquire equity? The most common way is through paying down your mortgage. Each mortgage payment typically consists of two parts: the interest payment, which goes to your lender, and the principal payment, which reduces your outstanding loan balance. As you pay off your mortgage, you increase the portion of your home that you own outright, thereby building your equity.

Another way to boost your equity is through the appreciation of your property's value, primarily known as Capital Growth. Real estate market conditions can affect property values. In a robust market, your home's value could rise, increasing your equity without any additional effort on your part. However, it's crucial to remember that the opposite can also occur in a declining market.

At Teach Me About Property, we have a saying, “Grow the Gap.” It is a simple and easy way to approach home equity. Our strategy is to grow the gap between what you owe on your mortgage, and what you owe to the bank.

Home equity is a powerful tool for homeowners. It can serve as a financial safety net or be leveraged for further investments. For instance, some homeowners tap into their equity for major expenses such as home renovations, education fees, or even investing in more property. This is done through equity release loans or lines of credit, which we will discuss in more detail in Chapter 6.

It's also important to note that building equity takes time. In the early years of a mortgage, a larger portion of each payment goes towards interest rather than the principal. This process, known as amortisation, means equity builds slowly at first and then more rapidly as time goes on.

Managing your home equity wisely is crucial. While it can be tempting to tap into this asset for various reasons, doing so increases your debt and reduces the cushion you have in your property value versus what you owe. It's a balance between leveraging an asset and maintaining financial security.

Equity can also impact your decision to sell your home. The more equity you have, the more profit you stand to make from a sale. This profit can then be used to purchase a new home, invest, or fund lifestyle and other priorities. However, selling a home also involves costs and considerations, which we will explore in Chapter 8.

In summary, home equity is a fundamental concept in real estate, representing the part of your property that you own outright. It can increase through mortgage payments and capital growth, and it can be a useful financial tool when managed correctly. As we move through this eBook, we'll delve deeper into how you can build, measure, and utilise your home equity effectively.

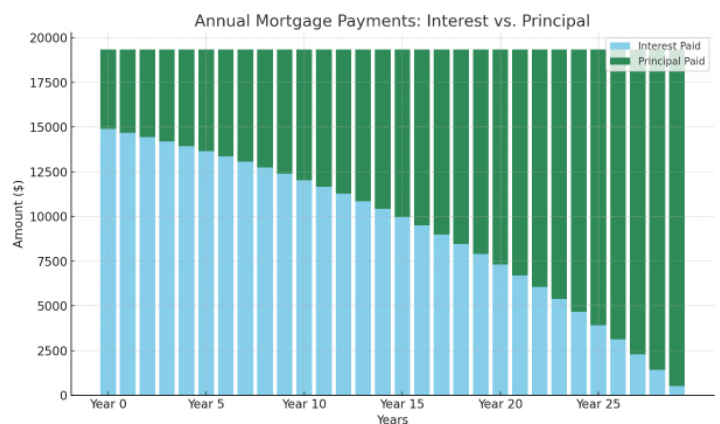


CHAPTER 02

How Equity Builds Over Time

Building equity in a property is a process that unfolds over time, influenced by various factors. It's important for homeowners and property investors to understand this progression, as it forms a key component of their financial journey. In this chapter, we'll explore how equity accumulation works and include a case study to illustrate these concepts in a real-world context.

Equity accumulation primarily occurs in two ways: through paying down the mortgage principal and through the appreciation of the property's value - capital growth. Initially, in the early years of a mortgage, the majority of each payment is allocated towards interest, with a smaller portion reducing the principal. However, as time progresses, this ratio shifts, and more of each payment goes towards the principal, accelerating the build-up of equity.



This process is known as loan amortisation. In a standard fixed-rate mortgage, the total payment amount remains the same throughout the loan term, but the composition of interest and principal changes over time. In the beginning, it can feel like a slow climb, but as the balance decreases, the equity increase becomes more noticeable.

Capital growth also plays a vital role. Real estate generally appreciates over time, meaning the value of your property can increase, boosting your equity without any additional input from you. This appreciation can be influenced by several factors, including market trends, location, home improvements, and changes in the surrounding area.



SACRIFICE

At Teach Me About Property, we believe in time and patience. The TMAP Way is to take the long view and choose time in the market, rather than trying to “time the market”. We explore this in more depth in the Sacrifice pillar of our CAUSE Method course.

CASE STUDY

Edith and Anthony

To understand how this works in practice, let's consider Edith and Anthony. In 2016, they purchased a home for \$495,000 - a beautiful four-bedroom house in Coomera, Queensland. By 2024, the property was valued at an incredible \$770,000. But how? Through capital growth of \$271,020 and strategic repayments.

The monthly mortgage payment throughout this period (2016-2024) averaged \$2,300. By 2021, they had both seen an increase in their annual incomes and received “windfalls” in the form of inheritance, leading to additional contributions at the end of each financial year.

Today, their remaining mortgage is \$415,000, which means Edith and Anthony now have equity of \$355,000, or approximately 46.10%, in their property. This equity is calculated as the difference between the current property value of \$770,000 and the new remaining mortgage balance.

By understanding changes in the market and making strategic repayments, Edith and Anthony were able to make informed decisions about their property, and are now in a position to refinance and leverage their growing equity.

It's important to note that while equity can increase due to these factors, it can also be affected by market downturns. Decreases in property value can lead to reduced equity, and in extreme cases, negative equity, where the homeowner owes more on the mortgage than the property is worth. Therefore, it's crucial for homeowners to make wise property selection decisions before they purchase. The correct property will have less exposure to downside risks, and insulate the owner from potential negative market conditions. The wrong property can be a painful experience.

At Teach Me About Property, we have our 'How to pay off your mortgage in under 10 Years' strategy. The TMAP Way is to adopt strategies that pay down the mortgage on your primary place of residence as quickly as possible, opening you up to more financial options faster. We explore this in more depth in our sessions.

In conclusion, building equity is a gradual process influenced by mortgage repayments and property value changes. By understanding these dynamics, homeowners can make smarter financial decisions and potentially leverage their equity for future investments. The case of Edith and Anthony demonstrates how equity can grow over time, providing a tangible asset that can be utilised to acquire more assets and fund lifestyle. .



CHAPTER 03

Measuring Your Home's Equity

Determining the equity in your home is an essential skill for any homeowner. This chapter explores the methods for calculating home equity and includes a practical activity to help you assess your own situation.

Home equity is the difference between your property's current market value and the remaining balance on any mortgages against the property. To measure it, you need two key pieces of information: the current market value of your home and the total of your remaining mortgage balance(s).

The market value of your home can fluctuate based on various factors, including the real estate market's condition, your home's location, and any improvements you've made.

You can estimate the market value in several ways:

- A. Professional Valuation:** Hiring a professional property valuer is the most accurate method. They will assess your home's condition, size, location, and comparable sales in your area. **Teach Me About Property** has an ecosystem of experts that can assist you in this aspect.
- B. Comparative Market Analysis (CMA):** Real estate agents often offer this service, comparing your home to similar properties that have recently sold in your area.

C. Online Valuation Tools: Websites like **RealEstate** or **Domain** provide estimated home values, but they can sometimes be inaccurate. More reliable sites include **RP Data** (paid) and **APM Price Finder** (paid) and possibly even **On the House** (free).

Your mortgage balance can be found on your most recent mortgage statement or your banking app. If you have a second mortgage or a home equity line of credit, include these balances as well.

Activity

Calculate Your Home Equity

Now, let's put this knowledge into practice.

Part A: Calculate your Home Equity

1. Determine your home's current market value. Use one of the methods mentioned above. For this activity, let's assume you opt for an online valuation tool and find that your home's estimated value is **\$850,000**
2. Check your latest mortgage statement to find your remaining mortgage balance. Suppose it is **\$400,000**
3. Subtract your mortgage balance from your home's market value: **$\$850,000 - \$400,000 = \$450,000$**
4. Your calculated equity is **\$450,000**. This is the amount you own outright in your property.

Part B: Calculate your LVR (Loan to Value Ratio)

LVR is a financial term used by lenders to express the ratio of a loan to the value of an asset purchased. It is typically used by financial institutions to assess the risk of a mortgage loan. A higher LVR means more risk for the lender, as it indicates a smaller equity stake by the homeowner. Conversely, a lower LVR means less risk for the lender, as the homeowner has a larger equity stake in the property. It's worked out as a percentage, so let's use the example above to clarify:

1. Per the example above, the value of your property is **\$850,000**
2. Your last mortgage statement showed a balance of **\$400,000**
3. The LVR is calculated by dividing the mortgage remaining by the property value, then multiplying by 100 to convert it to a percentage: **$\$400,000 / \$850,000 = 0.47 * 100$**
4. Therefore, your calculate LVR = **47%**

Part C: Calculate your Access

An LVR of less than 80% is typically considered good as it may avoid the need for Lender's Mortgage Insurance (LMI), and indicates that the homeowner has a substantial equity stake in their property. To calculate how much a bank may be willing to loan you, based on the equity example above, you will need to find the gap between your property value and this LVR limit.

1. Property Value x 80% = Maximum Accessible Amount
2. In the example's case: \$850,000 x 80% = \$680,000
3. For this example an amount of \$680,000 is the maximum you can access.

Part D: Calculate your Useable Equity

Usable equity is the portion of your equity that you can actually use or borrow against. It's calculated by taking the maximum loanable amount at an 80% LVR and subtracting the current mortgage balance from it. Here's how you find it:

1. Maximum Accessible Amount – Current Mortgage Balance = Useable Equity
2. In the example's case: \$680,000 - \$400,000 = \$280,000 of Useable Equity.
3. So, you have \$280,000 of usable equity. This is the amount that you could potentially use to invest in more properties or fund other lifestyle choices, assuming the bank approves lending against this equity.

Pro Tip: in some instances you can access up to 90% of your property's value but you will incur LMI (Lenders Mortgage insurance). This is an insurance policy that banks require borrowers to take out to protect them if you don't make the mortgage payments. Ideally, you'd avoid LMI but in some cases, being able to invest sooner can have long term benefits.

It's important to remember that this calculation provides an estimate of your equity. The actual value could be higher or lower, depending on the accuracy of your home's market value assessment and current market conditions.

Your home's equity isn't a static number. It changes over time as you pay down your mortgage and as the value of your property fluctuates. Regularly assessing your home's equity is a good practice, especially if you're considering a refinance, an equity release loan, or planning to sell your home.

Several factors can affect your home's market value:

1. **Local Market Trends:** The overall health of the real estate market in your area can increase or decrease property values.
2. **Home Improvements:** Upgrades and renovations can boost your home's value, while neglect and damage can decrease it.
3. **Neighbourhood Changes:** New developments, schools, and amenities can make your area more desirable. Also changes to zoning laws can have huge impacts on home values.

Accurate measurement of your home's equity is vital for making informed financial decisions. Underestimating equity could lead you to miss out on financial opportunities, like a favourable refinance or the ability to eliminate lenders mortgage insurance (LMI). Overestimating it, on the other hand, might lead to financial overreach in investments or renovations.

Because equity can fluctuate with market conditions, it's advisable to reassess your home's equity periodically, especially if you're planning significant financial moves. Consulting with a Teach Me About Property expert can provide a more precise understanding and guide your decisions.



CONTROL

At Teach Me About Property, we believe in using tools to help take control of your finances. The TMAP Way is to adopt new technology, not be afraid of it. We explore our TMAP Toolkit in the Control pillar of our CAUSE Method course.

In conclusion, understanding and accurately measuring your home equity is a crucial aspect of home-ownership. It requires staying informed about your mortgage balance, being aware of current market conditions, and regularly assessing the value of your property. By actively managing your equity, you can make more strategic decisions regarding your property and overall financial health. This chapter's activity serves as a starting point for you to engage with and understand your home's equity.



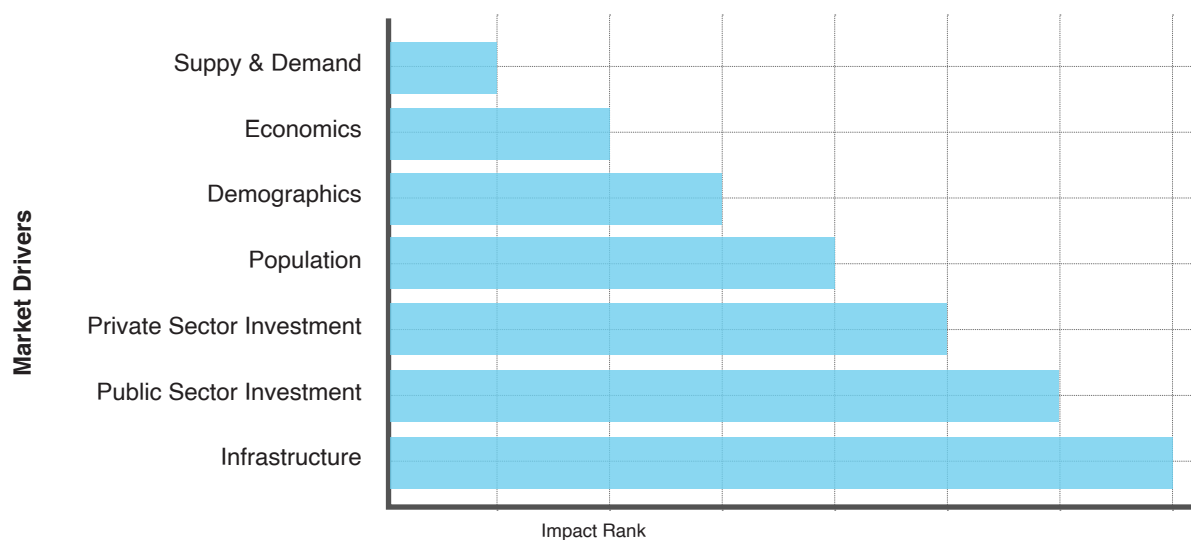
CHAPTER 04

Factors Influencing Home Equity

Home equity is not only a reflection of your mortgage payments but also a result of several external and internal factors. At Teach Me About Property, we refer to these as Key Market Drivers.

Understanding these elements is crucial for homeowners, as they can significantly impact the equity you have in your property. This chapter examines a few of these drivers and includes a case study to demonstrate their real-world effects.

Ranking of Market Drivers Impacting Home Equity



Key Market Drivers

1. **Public Sector Investment:** Government investments in infrastructure, public services, and community development can enhance the desirability and value of surrounding residential areas, thereby increasing home equity.
2. **Private Sector Investment:** Investments by private entities in local businesses, commercial real estate, and community projects can lead to economic growth and improved neighbourhood amenities, positively affecting home equity.
3. **Supply & Demand:** The balance between housing supply and consumer demand is a fundamental driver of home equity; limited supply amidst high demand can drive up home prices, boosting equity.

CASE STUDY The Ellis Family

The Ellis family's experience provides a clear example of how these factors can influence home equity. They purchased a home in a high growth suburb, Austral, in the South West Sydney, in November of 2020 for \$640,000.

Impact of Key Market Drivers:

- The Ellis family were strategic when they purchased their home in this area, as in 2018, construction of the nearby Western Sydney Airport began, increasing the accessibility and potential economic growth of the area.
- In 2021 and 2022, the NSW Government invested \$740 million into the nearby Liverpool Health and Academic Precinct, as well as part of \$3.3 billion toward Liverpool High Schools, increasing the desirability of the area for families.

- Austral and North Leppington now has six operational or under construction private schools. That's an exceptionally high number of opportunities for families in this region.
- A shift towards remote work over this three year period also influenced the local property market and many NSW regions saw a rise of home values by 3% in April 2023.

The property was an off-the-plan purchase and they completed construction in May 2023. At that time, their home was revalued at \$950,000. Their equity grew significantly due to the correct property selection in an area where external factors predicted certain growth.

This case study illustrates how a combination of external market conditions can significantly impact home equity. Remember, while some elements, like economic conditions and market trends, are beyond a homeowner's control, others, such as selection of property type and research into the neighbourhood, are well within their influence.



EDUCATION

At Teach Me About Property, we believe knowing what drives the market can help make informed investment decisions. The TMAP Way is to stay up to date with trends. We explore how investments from the private and public sectors shape the places we live in the Education pillar of our CAUSE Method course.

In conclusion, a homeowner's equity is subject to a variety of influencing factors. While external conditions like the economy and neighbourhood developments play a significant role, homeowners and investors can make informed decisions with the right data and research. When you know what factors to look out for and where to find up-to-date information, you can proactively invest or buy.

Managing internal factors like home improvements can help enhance home equity, but the external factors are also within a buyer's control when deciding on a property. Understanding and monitoring these Key Market Drivers can help homeowners make positive investments for their future. The case of the Ellis family serves as an excellent example of how these drivers affect home equity over time.



CHAPTER 05

Using Home Equity Wisely

At Teach Me About Property, we emphasise the importance of using home equity, a significant financial asset for homeowners, both wisely and strategically. Our experience shows that homeowners typically engage in one of three distinct approaches, with a stark contrast between the Wealth Game, the Comfort Game and the Poverty Game in terms of managing equity. The key is to prioritise assets over liabilities, with the ideal being assets that not only sustain your lifestyle but also generate cash flow and can finance the acquisition of additional assets.

A common error we observe is homeowners leveraging the equity from their primary residence instead of from investment properties. This approach can be less advantageous because it's the homeowner who bears the cost of the home loan for their primary residence (PPR),

while tenants cover the loan payments for investment properties. Therefore, the strategic goal should be to minimise the loan on your PPR, leveraging investment properties to build and maintain a robust, self-sustaining asset portfolio.

This chapter will discuss the prudent use of home equity and include an activity to help you evaluate the best options for utilising your equity. **Several options exist for tapping into your home equity:**

A. Equity Release Loans: These are lump-sum loans that are repaid over a fixed term. They often have fixed interest rates.

- B. Line of Credit:** These work like credit cards, offering a line of credit you can draw from as needed. They typically have variable interest rates.
- C. Reverse Mortgages:** Typically for older homeowners to tap into their home's equity, providing them with extra cash to enjoy a comfortable retirement.

Each of these options has its advantages and risks, and the best choice depends on your specific financial situation and objectives.

Home equity can be used for several purposes, but some are generally considered more financially prudent than others:

- **Portfolio Building:** Using equity to buy a second or third property can be a great way to build wealth for your family and future generations. This is part of understanding your “why” which we explore in our Control pillar at TMAP.
- **Home Improvements:** Investing back into your property can increase its value and, by extension, your equity.
- **Debt Consolidation:** Using equity to pay off high-interest debts can be a smart move, but it requires discipline to avoid accumulating new debt. At Teach Me About Property, we believe in paying down the smallest debt first and, once you have that momentum, the highest interest debt next. This also forms part of taking control over your finances.

When discussing the use of home equity, it's important to focus on strategic financial planning. The ideal scenario is playing the Wealth Game, where you build an asset portfolio that not only sustains itself but also funds future acquisitions and your lifestyle. This contrasts with the Comfort Game, where you rely on a single asset.

In this approach, you might use home equity to enhance your lifestyle, but the debt incurred is serviced from your own income, which can carry risks.

It's crucial to understand that leveraging home equity increases your debt and, with loans or lines of credit, your home is collateral. Failure to make payments could lead to foreclosure, and using

Activity

Evaluating Your Equity Usage Plan

To understand how to use your equity wisely, let's do a practical exercise. You'll need a piece of paper, a pen, and some basic financial information:

- 1. List Your Objectives:** Write down why you want to use your home equity. Is it for home improvements, debt consolidation, or something else?
- 2. Assess the Financial Impact:** For each objective, list the potential financial benefits and drawbacks. How will this use of equity impact your overall financial situation?

3. **Consider the Alternatives:** Are there other ways to achieve the same objectives without using your home equity? Could saving or budgeting be a viable alternative?
4. **Consult with Teach Me About Property:** If possible, discuss your goals with a TMAP mentor. They can provide valuable insights and help you make an informed decision.

At Teach Me About Property, we offer an even more comprehensive and detailed goal setting program, our Top of the Mountain Playbook. This activity is all about taking control and ownership of your finances and establishing a clear vision for your wealth building future.



ACTION

At Teach Me About Property, we believe property is a vehicle to financial prosperity. The TMAP Way is to buy properties where the rental income exceeds the expenses. That's it. We explore how this income replacement strategy works in the Action pillar of our CAUSE Method course.

Using home equity wisely is about balancing the immediate benefits with the long-term impact on your financial health. It's essential to approach this with careful consideration, assessing both the opportunities and the risks involved. Remember, your home is not just an asset, but also the place you live. Protecting it should always be a top priority. This chapter's activity is designed to help you make thoughtful and informed decisions about leveraging your home equity.



CHAPTER 06

Home Equity Loans vs. Lines of Credit

When considering leveraging home equity, homeowners often face a choice between two popular financial products: Equity Release Loans and Lines of Credit. Understanding the distinctions between these two options is crucial for making informed decisions. This chapter delves into the specifics of each and includes a case study to illustrate their practical application.

An equity release loan, often referred to as a second mortgage, allows homeowners to borrow a lump sum against their home's equity. It typically comes with a fixed interest rate and a set repayment term, ranging from five to 30 years. This loan type is ideal for those who need a specific amount for a one-time expense, like a major home renovation or paying for college tuition.

A Line of Credit operates more like a credit card, giving you a line of credit that you can draw from as needed. It usually has a variable interest rate and two phases: the draw period (typically 5-10 years), where you can access the funds and make interest-only payments, and the repayment period (usually 10-20 years), where you can no longer draw funds and must pay back the principal and interest.

Option	Advantages	Disadvantages
Equity Release Loans	• Predictable monthly payments. • Fixed interest rates protect against market fluctuations. Ideal for large, one-time expenses.	• Less flexibility compared to a Line of Credit. • Risk of foreclosure if payments aren't made.
Lines of Credit	• Flexibility to draw funds as needed. • Only pay interest on the amount drawn. Suitable for ongoing expenses.	• Variable interest rates can increase payments. • The temptation to overspend due to easy access to funds.

CASE STUDY

Johnno

To illustrate how these options can be used in real-life scenarios, consider the case of Johnno, a single dad from Melbourne's outer suburb of Greenvale, a Solo Hero as we like to say here at TMAP. In 2015, Johnno owned a home worth \$400,000 and had a remaining mortgage balance of \$250,000, giving them \$125,000 in equity.

Scenario 1: Equity Release Loan

Johnno wanted to give his son a debt free start in life, and needed \$50,000 for University fees. He opted for an equity release loan because it provided a fixed rate and a single, lump-sum amount. He secured a 10-year loan at a 5% interest rate, leading to a predictable monthly payment that fit the budget.

Scenario 2: Line of Credit

A few years later, Johnno decided to renovate the bathrooms but was unsure about the total cost. He opted for a Line of Credit, which gave him the flexibility to draw funds as needed over time.

He was approved for a \$100,000 credit line and ended up using \$70,000. The variable rate started at 4%, but increased to 6% over the draw period.

Outcome

The equity release loan was ideal for Johnno's immediate, one-time need for University fees. The predictable payments helped him budget accordingly. However, the Line of Credit's flexibility was more suitable for his renovation project, as he could draw funds according to the project's progress and changing costs. Though the variable interest rate meant the payments fluctuated, he was comfortable managing this uncertainty given the convenience it offered.

Johnno's experiences with both an equity release loan and a Line of Credit highlight the importance of choosing the right option based on specific financial needs and circumstances. The equity release loan's fixed-rate and predictable payments were perfect for his son's tuition, a predetermined expense. Conversely, the flexibility of the Line of Credit was better suited for the uncertainties and staggered nature of home renovation costs.



EDUCATION

At Teach Me About Property, we understand there is a lot of new terminology that comes with property investment and home ownership. The TMAP Way is to establish good financial and education habits. We explore how to get the most out of our TMAP Rhythm in the Education pillar of our CAUSE Method course.

Both equity release loans and Line of Credits offer valuable ways to tap into your home equity, each with its own set of benefits and drawbacks. The right choice depends on your specific financial needs, the nature of the expenses you're facing, and your ability to manage loan repayments. The Johnson family's case is a prime example of how both options can be used effectively under different circumstances. As with any financial decision, it's important to carefully consider your situation and possibly consult a financial advisor to ensure the choice aligns with your overall financial goals.



CHAPTER 07

The Impact of Refinancing on Equity

Refinancing a mortgage is a strategic move that many homeowners consider, especially when interest rates are favourable. It involves replacing your existing mortgage with a new one, often with different terms and rates. While refinancing can offer several benefits, it's important to understand how it impacts your home equity.

Refinancing is typically pursued for a few key reasons: to secure a lower interest rate, to change the loan term, or to convert equity into cash (cash-out refinancing). Each of these objectives can affect your home equity differently.

A. Lower Interest Rates: Refinancing for a lower interest rate can reduce your monthly payments, allowing you to pay off the principal faster and build equity more quickly.

B. Changing Loan Terms: Extending your mortgage term through refinancing can lower monthly payments but slows down equity accumulation since more of your payment goes towards interest. Conversely, shortening the loan term speeds up equity build-up but increases monthly payments.

C. Cash-Out Refinancing: This involves refinancing for more than what you owe on your current mortgage and taking the difference in cash. While this can provide immediate liquidity, it also reduces your home equity and increases your total loan amount.

When refinancing, it's essential to consider the cost of the process itself. Refinancing fees, such as application, origination, and appraisal fees, can add up and are often rolled into the new mortgage, potentially reducing your equity.

Refinancing can be a beneficial tool for managing your mortgage and home equity. However, the long-term impact on your equity depends on how you manage the refinanced mortgage. Lower interest rates can accelerate equity build-up, but extending the loan term or taking out a cash-out refinance can slow down or even temporarily reduce your equity.

To determine if refinancing is right for you, consider your long-term financial goals, current mortgage terms, and the potential benefits and drawbacks of refinancing. It's often beneficial to consult with a financial advisor to understand the implications fully.

In summary, refinancing can be a powerful tool in managing your mortgage and equity. Whether it's beneficial in the long term depends on the specific terms of the refinance and your financial strategy. A thoughtful approach to refinancing can help you align your mortgage with your broader financial goals, ultimately impacting how quickly you build equity in your home.



CHAPTER 08

Equity and Home Selling

Selling a home is a significant financial event in a homeowner's life, and understanding how equity plays into this process is crucial. Equity can greatly influence the financial outcome of a sale. In this chapter, we'll explore the role of equity in home selling, illustrated with a case study.

Equity represents the portion of your home that you own outright. When you sell your home, this equity translates into profit, minus any selling expenses like agent commissions and closing costs. The more equity you have, the more financial gains you stand to make from the sale.

Several factors can affect the profit you make from selling your home:

- A. Market Value:** Your home's current market value dictates the upper limit of your selling price. A higher market value usually means higher equity, provided your mortgage balance is relatively low.
- B. Mortgage Balance:** The remaining balance on your mortgage will be deducted from the sale proceeds. A lower balance means higher equity and potentially more profit.
- C. Location:** The location of your home significantly influences its market value and potential selling price. Homes in desirable areas typically fetch higher prices.
- D. Selling Expenses:** Costs associated with selling, such as real estate agent fees and closing costs, will also be deducted from your sale proceeds, impacting your net profit.

CASE STUDY

Robinson Sisters

Sisters, Jen and Lucy Robinson both bought a home in 2010.

Jen purchased in regional Queensland for \$250,000 and, over the years, paid the mortgage down to \$100,000. The property was valued at \$299,000 in 2020 and thus, her equity stood at \$199,000 when she decided to sell in 2020.

After listing her home, she accepted an offer at market value. From the \$299,000 sale proceeds, she paid off the remaining \$100,000 mortgage balance, and incurred \$30,000 in selling expenses, including agent fees and closing costs.

Calculating her profit, Jen subtracted the mortgage balance and selling expenses from the sale price:

- Sale Price: \$299,000
- Minus Mortgage Balance: \$100,000
- Minus Selling Expenses: \$30,000
- Net Profit: \$169,000

Jen's sister, Lucy, who had bought at the same time, had opted for a popular suburb of Sydney. While her initial loan was much higher, paying \$645,000 for the property. She too paid the mortgage down \$150,000 over the decade. She recently had her property valued at \$1,100,000 and is now intending to sell.

- Sale Price: \$1,100,000
- Minus Mortgage Balance: \$495,000
- Minus Selling Expenses: \$50,000
- Net Profit: \$555,000

The Robinson sisters are an example of how profit can be made from the sale of a home, to varying degrees of success. While factors like selling expenses and mortgage balance were important, in this case study location and market value played a more substantial role.



UNITY

At Teach Me About Property, we believe you need to be in the right room, with the right people, at the right time. The TMAP Way is to audit your circle, your surroundings and choose settings that help you grow. This extends to the places you make investments, and who you make them with, which we cover in the Unity pillar of our CAUSE Method course.

In conclusion, understanding and maximising your home equity can lead to significant financial benefits when selling your property. The case of the Robinson sisters demonstrates how equity, combined with favourable markets, can result in substantial profit differences. Homeowners should aim to increase their equity over time and carefully consider the location, timing and costs associated with selling to optimise their financial return.



CHAPTER 09

Equity in Investment Properties

Equity in investment properties functions similarly to equity in a primary residence, but with some unique considerations due to the nature of property investments. This chapter focuses on understanding and managing equity in investment properties, including an activity designed for property investors.

Equity in an investment property is the difference between its current market value and the outstanding balance on any mortgages or loans against the property. This equity can grow over time as you pay down the mortgage and as the property's value appreciates.

Investment property owners often leverage equity for various purposes, such as purchasing additional properties, renovating existing ones to increase rental income, or refinancing to better loan terms. It's essential to carefully consider the risks and benefits of leveraging equity in investment properties, as it can both amplify gains and increase financial exposure.

Activity

Assessing Equity in Your Investment Property

For investment property owners, it's crucial to regularly assess and strategically manage your property's equity. Here's an activity to help you evaluate your current equity situation:

Calculate Current Equity:

- A. Determine your property's current market value. This can be done through an appraisal, a comparative market analysis, or using online valuation tools.
- B. Find your latest mortgage statement to ascertain the remaining loan balance.
- C. Subtract the loan balance from the property's market value to find your current equity.

Evaluate Equity Growth:

- A. Review your property's value history and mortgage statements over the past few years.
- B. Calculate the change in equity over this period to understand the growth trend.

Assess Leverage Potential:

- A. Consider potential uses for your equity (e.g., buying another property, renovations, debt consolidation).
- B. Evaluate the risks and benefits of each option, considering factors like market conditions, rental income potential, and your overall investment strategy.

Plan Future Actions:

- A. Based on your assessment, outline a plan for your investment property's equity. This could include steps like refinancing, making renovations, or acquiring more properties.

Consult with an Expert:

- A. Review your plan with a **Teach Me About Property** mentor.

**UNITY**

At Teach Me About Property, we believe property is a team sport. The TMAP Way is to surround yourself with a community of like-minded people. Our TMAP Community and mentorship program does just that, and forms part of the Unity pillar of our CAUSE Method course.

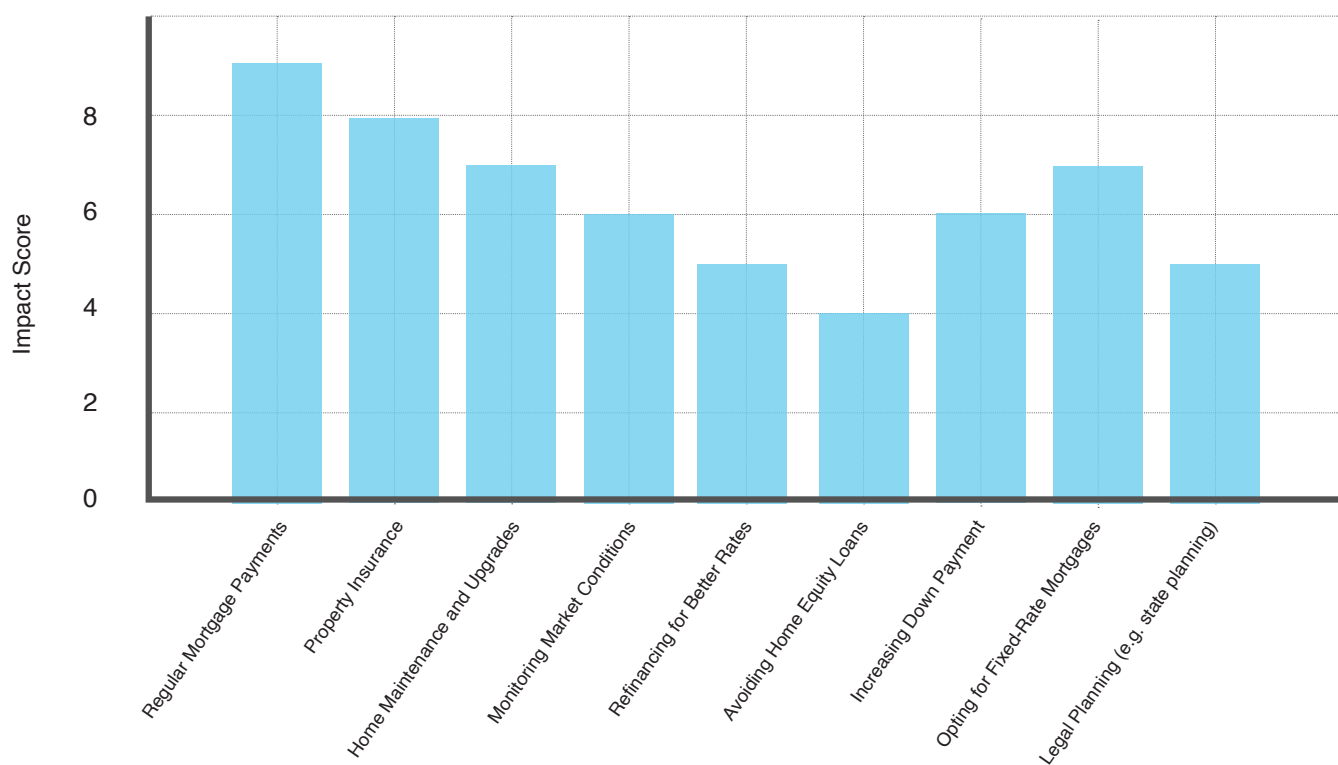
Equity in investment properties is a dynamic and powerful tool in a real estate investor's arsenal. Regularly assessing and strategically using this equity can significantly impact your investment portfolio's growth and profitability. The key is to balance opportunity with risk, ensuring that decisions made today positively impact your long-term investment objectives. The activity outlined in this chapter is designed to help you actively manage your investment property's equity, fostering informed and strategic decision-making.



CHAPTER 10

Protecting Your Equity

Impact Scores of Strategies for Protecting Home Equity



Protecting the equity in your home is as important as building it. This chapter explores strategies for safeguarding your home's equity and includes a case study to highlight the significance of these protective measures.

Equity protection involves minimising risks that can erode the value of your home. This includes managing financial obligations such as mortgages and insurance, as well as maintaining and improving your property's condition.

Key Strategies

- A. Regular Mortgage Payments:** Consistently paying your mortgage on time is fundamental. Late or missed payments can lead to penalties, increased interest rates, and in extreme cases, foreclosure, all of which can diminish your equity.
- B. Property Insurance:** Adequate insurance coverage is crucial. It protects against losses from unforeseen events like natural disasters, which could otherwise significantly impact your home's value and your equity.
- C. Home Maintenance and Upgrades:** Regular maintenance and timely upgrades can prevent depreciation of your property's value, thereby protecting your equity. Neglecting repairs or allowing the property to become outdated can lead to a decrease in value.
- D. Monitoring Market Conditions:** Understanding real estate market trends helps in making informed decisions about when to invest further in your property or possibly when to sell.

CASE STUDY

Amanda and Jack

Amanda and Jack were just 19 when they purchased their first home in Schofields, NSW for \$495,000 in 2021. In the first few years of home ownership, they diligently made their mortgage payments, slowly building their equity. They also invested in regular home maintenance, repairing a window that broke during a thunderstorm and replacing some leaky taps as soon as the issue arose. Together with purchasing in a strategic area, they increased their home's market value to \$635,000 by 2024; a strong increase in just a short three year time frame.

Recently, they were hit with another major storm, which caused significant damage to properties, including theirs. Fortunately, Amanda and Jack, although young, had comprehensive homeowners insurance, which covered the repair costs. Their proactive approach to insurance protected their equity from being eroded by this unforeseen event.

Safeguarding the equity in your home is a multifaceted endeavour that requires careful and continuous attention. It involves a combination of financial diligence, such as timely mortgage payments and strategic refinancing, along with the physical upkeep and improvement of the property.

Adequate insurance coverage plays a pivotal role in protecting your investment against unforeseen events, ensuring that your hard-earned equity is not eroded by circumstances beyond your control.



SACRIFICE

At Teach Me About Property, we believe in being prepared and agile. The TMAP Way is to sacrifice now for later, so that your tomorrows are better than your todays. We provide tools to help you do this in the Sacrifice pillar of our CAUSE Method course.

Regular assessment and understanding of the real estate market also contribute significantly to equity protection. Being informed enables homeowners to make timely decisions that align with market trends, maximising their property's value and equity.

By adopting a proactive and informed approach, homeowners can not only preserve but also potentially enhance their home equity, setting a solid foundation for their financial future.



CHAPTER 11

Leveraging Equity for Financial Goals

Leveraging the equity in your home can be a strategic way to achieve various financial goals. This chapter discusses how to effectively use home equity and includes an activity designed to align the use of equity with your financial objectives.

Home equity can be a versatile financial tool. It can be accessed through an equity release loan, a line of credit, or reverse mortgage. The key to leveraging equity effectively lies in aligning its use with your long-term financial goals, whether it's for debt consolidation, funding education, investing in more property, or another objective.

Activity

Evaluating Your Equity Usage Plan

This activity will help you map out a strategy for using your home equity in a way that aligns with your financial goals:

1. Identify Your Financial Goals:

- Write down your short-term and long-term financial goals. These could include paying off high-interest debt, funding a child's education, or investing in retirement.

2. Evaluate Equity Amount:

- Estimate the current amount of equity available in your home (current home value minus any outstanding mortgage balance).

3. Determine Funding Needs:

- Estimate the current amount of equity available in your home (current home value minus any outstanding mortgage balance).

4. Match Goals with Equity Utilisation:

- Consider which goals could be effectively met by using your home equity. Align the amount of equity you have with the funding needs of your goals.

6. Create a Plan:

- Develop a clear plan outlining how you will use your home equity to achieve each goal. Include timelines and steps for accessing equity (e.g., obtaining a Line of Credit, refinancing).

7. Seek Professional Advice:

- Consider consulting with a professional to review your plan, ensuring it aligns with your overall financial strategy and risk tolerance.



CONTROL

At Teach Me About Property, we believe in establishing goals from the start. The TMAP Way is to set a three-year plan to get to the Top of the Mountain. We explore how to unpack realistic goals for all areas of your life in the Control pillar of our CAUSE Method course.

Leveraging home equity can be a powerful way to achieve various financial goals. However, it's crucial to approach this strategy with careful planning and consideration of the potential risks. The key is to align equity utilisation with your overall financial objectives, ensuring that it contributes positively to your long-term financial health. The activity outlined in this chapter is designed to help you thoughtfully and strategically plan for using your home equity, ensuring that it serves as a beneficial tool in reaching your financial aspirations.



CHAPTER 12

Conclusion and Action Plan

As we conclude this exploration into home equity, it's essential to admit to a clear action plan for leveraging your property to build wealth.

Ten-Step Action Plan

- 1. Contact Teach Me About Property:** Reach out to us for personalised guidance on your property journey.
- 2. Assess Your Current Equity:** Calculate your home's equity using the methods discussed in Chapter 3.
- 3. Set Clear Financial Goals:** Determine your short-term and long-term financial objectives.
- 4. Review Your Mortgage Options:** Consider if refinancing, as detailed in Chapter 7, is a beneficial step for you.
- 5. Plan for Equity Growth:** Use the insights from Chapter 2 to strategize on building your equity.
- 6. Consider Equity Utilisation:** Reflect on Chapter 5 to decide if using your equity for financial goals is right for you.
- 7. Evaluate Property Investment Opportunities:** If you're interested in investment properties, apply the lessons from Chapter 9.
- 8. Implement Protective Measures:** Ensure your equity is safeguarded by following the

9. **Stay Informed:** Keep abreast of market trends and economic conditions as they can impact your property's value and equity. Make sure you subscribe to our Youtube Channel and our TMAP News for the latest updates.
10. **Regularly Reassess Your Strategy:** Periodically revisit your property strategy to ensure it aligns with changing goals and market conditions. One of tools to help you assess your financial practices is the Wealth Game Scorecard. Complete it FREE today.

Building and managing home equity is a journey that requires knowledge, strategy, and continuous reassessment. By following the ten-step action plan and utilising the insights provided in this book, you can make informed decisions that contribute to your wealth-building journey. Remember, Teach Me About Property is here to guide you every step of the way, helping you to harness the full potential of your property investment.

TMAP