Lesson 6: Home Ownership – Equity

GOALS:

- Determine the amount of equity accrued in a mortgage problem.
- Determine the value of an appreciation or depreciation of a home.

Another aspect of home ownership – apart from the mortgage – is viewing the home as an investment. Generally in Canada house values have increased over time. This means that the longer you live in a home, the more it will eventually be worth when you sell it (hopefully). Here is some more house-related terminology:

Equity: Your equity in your home is defined as the difference between the current market value of the property and the amount you still owe on your mortgage. The equity is the amount of money that the owner gets to keep after selling the home and paying off the rest of the mortgage.

Asset: something you own that has value. Your house is an asset – your used socks are not assets.

Appreciate (or Appreciating or Appreciation): the act of an asset growing in value over time. As has been mentioned before, many homes appreciate in value over the length of time that you own them.

Depreciate (or Depreciating or Depreciation): the act of an asset decreasing in value over time. (House values have generally not depreciated in Canada for an extended period of time, but it could happen!)

Example 1

Ramiro just purchased a house that is valued at $210 000. If the house appreciates in value at a rate of 2% per year, find the value of the house after 25 years.

C/Y = 1

N = 25 (N = 25 × 1)
I = 2
PV = -210 000
PMT = 0
*FV = → $344 527.26
P/Y = 1
C/Y = 1

Example 2

Yoshiko bought a house at a bad time in a down market. When she purchased the house, it was valued at $180 000. Unfortunately, it has depreciated in value by 1.2% per year over the last five years. What is the current (depreciated) value of her house?

I = -1.2

N = 5
I = -1.2
PV = -180000
PMT = 0
*FV = → $169 456.11
P/Y = 1
C/Y = 1