**Let’s help Susie understand**

**What is Equity?**

Simply:

Equity is the difference between the homes value less what you owe to the bank.

Home Value – Mortgage = Equity

The value of the home is determined by what current homebuyers in the market are willing to pay for it. How do you know what they are willing to pay without putting it on the market for sale?

You can hire a real estate appraiser. They are experts in the field and will compare your property with those around it that are similar and give you an educated estimate. The banks will trust the appraisers opinion and use this information to decide how much equity you have.

**What can Equity be used for?**

Equity can be used to get a loan or line of credit. Often these types of loans are used to start a new business, pay for schooling, or buy an investment property. We are going to focus on its use as a down payment for a new investment property.

As described in our previous infographic – A simple guide to investing in real estate (link) you can use the equity of your current property to fund the downpayment of second or additional property. This allows you to keep your hard earned savings while still growing your real estate portfolio

Cash then subsequent equity purchases graph from first one

**How do you build equity?**

Growing or building equity is often times considered one of the biggest draws to investing in real estate.

Earlier we said that the equity is a remainder of the home value less the mortgage. Therefore in order to grow your equity you must pay off your mortgage.

How do you pay off your mortgage?

Owner-occupied (home you own and live in)

Personal Cash > mortgage

Investment Property (property you own and rent to tenants)

Rent > mortgage

Seems pretty easy right? Let’s dig just a little deeper.

Every dollar you pay the bank will not equal $1 in equity. This is because mortgages are broken down into two basic parts. The Principle and the Interest.

Definition: Principle

Interest (source investopedia)

Graph