

Is my home an asset?



Most people, when they come to financial planning, will list the house they live in amongst their assets.

Then, to be absolutely fair to themselves, they list their mortgage amongst their liabilities.

Deduct the second from the first and you get a picture of your net worth. Seems reasonable, doesn't it?

Perhaps not.

Firstly, take a look at the other assets that might form part of your list: deposit accounts, stocks & shares, PEPs, ISAs, investment bonds, works of art etc. These are all realisable assets - whereas the home you live in is not.

You might want to sell your home in order to buy another larger one - in which case you are simply exchanging one illiquid asset for another, perhaps with a larger mortgage liability attached.

The only time your home can be treated legitimately as an asset would be if you were selling it in order to release capital - we call this 'downsizing'. And if, at the moment, your focus is on building your business, or increasing your capital base, then this is not a primary objective.

Secondly, if you plan to include your home within your listing of current capital assets, think what this means in practice.

For the purposes of financial planning, what you are likely to do is project forwards the current value of your assets to some future date, in order to estimate your future capital worth. Whilst you might be tempted to include the current value of your home in this listing, if you have a mortgage attached to it, then you will also need to include in this equation the total future cost of servicing that loan.

Take a typical 25-year interest-only loan of £124,500. The total interest cost of this would be estimated at £318,884 plus the repayment of the capital debt. This represents a huge debt against any projected capital value.

For these reasons, we recommend excluding your home from your list of capital assets, especially if there is a mortgage attached. By all means include in that asset listing any second home or investment property, but not your main residence.

At Lakin Clark Financial Planning Ltd, we specialise in financial planning. By this, we mean the process of putting in place specific plans in order to meet your medium and long-term financial objectives.

We can help you sensibly plan those objectives, and, as far as possible, *protect* those plans against the 'unknowns' that life throws at us, en-route to our goals.

Why not call us on 01843 221449 for your free initial consultation?

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