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SATURDAY, SEPTEMBER 24, 2022

real estate

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Before taking that first step

What buyers and sellers should know for today's real estate market

BY BARRY WALDMAN
Special to the Post & Courier

The time has come to plant some roots, build some wealth and commit at least a few years to a place to live here in the Charleston region. You know the basics: You need sufficient funds for a down payment, escrow and a phalanx of fees at closing; a decent credit history if you're borrowing; and sufficient income to pay the monthly mortgage, including taxes and insurance.

You know that location is critical, but other considerations may also weigh on your decision and you should be clear on those before you search. You know you'll need a real estate agent to help you find, evaluate and bid on a property, and pre-approval from a lender, so you can act quickly. You're sadly well aware of the state of the real estate market today, with prices considerably higher than just two years ago, interest rates double last year's and inventory less than half of normal. Although the market has moved in your direction a bit, it's still a seller's market.

Or maybe it's time to sell your home and cash in that windfall of equity. You know to hire a real estate agent who will enter the property on the multiple listing service, bring in prospective buyers, help you price the house appropriately and facilitate the closing. You know to prepare your property for sale by cleaning up its curb appeal, showcasing the interior and repairing any glaring issues. You know that transactional costs — including the two Realtors and the cut for government — are going to take a chunk out of your profit.

Whether you're a buyer or a seller, you're ready. Right? Well, in the words of that great philosopher The Wizard of Oz, "Not so fast! Not so fast!"

What buyers should know

There are considerations every buyer and seller should know that evade



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Whether your house is 8,700 square feet and worth \$7 million like this one at 25 East Battery, or a more typical Charleston-area home, it's a good idea to hire a Realtor who knows the specific market segment you're in.

internet searches or chats with friends. For example, say local real estate agents, it's critical for buyers to work with an agent knowledgeable about the particular segment of the market that interests them. If you're looking on John's Island, an agent based in Mt. Pleasant is probably not a good choice, because the two areas are sufficiently dissimilar to require a dedicated expert. Likewise, an agent who specializes in condos and townhouses would have



Badia

difficulty providing excellent service to a second-home buyer on Kiawah.

James Badia, an agent with Pam Harrington Exclusives, says the dynamic on the sea islands, where his firm focuses, is different than the rest of the Charleston market. "Nobody has to buy a second home, so they can wait until homes prices come down. That's a big difference in our market. We work with our buyers much longer — 6 months to three years. We want our buyers to buy the perfect place," he said.

Those who build new should plan on long time horizons, says Charles Sullivan, a Realtor at Carriage Proper-



Sullivan

ties. The wait can be 10 months when an architect must submit plans for municipal approval. "On top of that, municipalities have either cut back or not replaced staff needed for permit reviews, building inspections and the

like," he said.

That has added fuel to the demand for move-in-ready homes.

Many buyers fail to account for all the ancillary costs in owning the home they are buying.

mainstory

For example, says Debra Jadwyn, a Realtor at Pam Harrington Exclusives, Kiawah and Seabrook impose com-



Jadwyn

munity fees covering roads, bridges and security, as do some new developments elsewhere. That's about \$2,500 annually on Kiawah, plus a one-time fee as closing of half a percent — or \$5,000 on a million-dollar home. It's not a ton of money relative to the sale price, but Jadwyn notes, "no one likes surprises at the closing table."

What sellers should know

Under today's unusual real estate conditions, pricing right is more critical for sellers now than it was a year ago, says Sullivan.

"How does your home truly compare to recent sales along with the latest properties for sale? Most algorithms [like those used by Internet estimators] can't differentiate important factors like location, condition or quality, nor factor in functionality of the floorplan and amenities. All those things add or subtract value. A seasoned agent who knows your market is always preferable over a guess from the internet."

Most agents say over-pricing your home gives a bad first impression and can't be solved by simply dropping the price subsequently. Buyers see the declining price and conclude there is something wrong with the property.



Elebash

Because the inventory of houses for sale has grown and prices have levelled off, sellers need to be more cognizant of their home's flaws and remediate them, says Legrand Elebash, a Realtor at Handsome Properties.

"If there is a quirk or two about your house that someone might have glossed over a few months ago, they probably will care about it today," he said. "It's a little bit of a return to normal." That means sellers may have to take a back-to-basics approach — touching up paint, covering needed repairs and staging.



PAM HARRINGTON EXCLUSIVES/PROVIDED

Many sellers leave the home inspection to the buyer and respond to the findings. That can be a costly mistake, says Jadwyn. "If it's a large home we'll advise people to get a pre-home inspection.

It's still a seller's market, but not so much so that you can neglect your house and just sell it for top dollar, say real estate agents. Consider painting, taking care of necessary repairs and staging.

"If there is a quirk or two about your house that someone might have glossed over a few months ago, they probably will care about it today."

Legrand Elebash

Realtor at Handsome Properties

That can take care of a lot of issues that might come up in the home inspection," she said. Imagine it discovers an ant infestation, a broken HVAC system or a roof leak; any of those could trigger a price renegotiation or scuttle a purchase late in the process.

Biggest misconceptions of buyers and sellers

Buyers and sellers enter the process filled with misconceptions that their



PAM HARRINGTON EXCLUSIVES/PROVIDED

Whether you're buying an oceanscape Kiawah villa like this or an ordinary house in the region, real estate agents advise you to prepare to stay at least four years to recoup your upfront investment.

hired agents must disabuse them of. Many prospective buyers approach real estate the same way they approached their weddings: with perfection as the starting point. But, says Elebash, there is no such thing.

“If we go out looking for the perfect house, we’re going to have a frustrating search. My advice is to focus first on your favorite neighborhoods. Then, within your price range, buy the best house you can get knowing in advance that not it’s not going to be perfect,” he said.

Using this approach, Elebash contends, many buyers forget what they had issues with once they’ve been in the house a few months.

The corollary for sellers is this: don’t lose perspective about your home. That inground pool, screened-in porch and built-in aquarium you installed might make your home extra valuable to you, but not generally to the market.

Elebash suggests sellers accept feedback about the value of their homes, from their real estate agent and from the market itself. If buyers turn up their noses at the man cave or she-shed, it’s a market signal that those additions aren’t increasing your resale value.

Both buyers and sellers may have serious misconceptions about the state of the real estate market today. The market has ebbed and some demand has sagged as buyers throw up their hands.

Prices have levelled off or even stepped back from their springtime highs. But they remain high, supply remains tight, and with higher interest rates, it continues to be a challenge to find the right home, especially for first-time buyers.

The biggest homebuying benefit: Imputed rent

It is easy to overrate the investment value of a home. Homeowners tend to discount the transactional costs of buying and selling property and the maintenance costs involved in ownership. This is particularly true in a market like today’s, in which many homeowners have seen their investments skyrocket in value. But generally, residential homeownership increases in value a bit more than inflation.

A house that doubles in price after 20 years may seem like a brilliant investment, but in fact, it only represents 3.6% annual growth, generally less than inflation. While most homes yield a higher return than that, the transactional and operational costs eat



CARRIAGE PROPERTIES/PROVIDED

Real estate agents say it’s important to maintain perspective about your home when you sell it. Everyone thinks theirs is special, but does your house have seven bathrooms, cover 6,800 square feet South of Broad and boast coffered ceilings and a pool, like this one?

into the profits.

Consequently, the rule of thumb among experts is that you shouldn’t consider residential ownership unless you’re planning to stay awhile. Research by Betterment.com suggests that purchase costs can be recouped, on average, after four years. This varies, of course, by myriad circumstances, including the location, local economic conditions, macroeconomic conditions, and condition of the property. Someone buying a home in the Charleston area two years ago could sell today at a big profit. But four years is a good guide.

Under ordinary conditions, the main economic value of a home is its forced savings. After all, renters don’t get their rent back when they leave, but homeowners can sell their homes and walk away with, at the very least, most of their investment back. Moreover, homeownership conveys many very impactful abstract benefits, like roots in a community, a sense of permanence and a place for children to call home.



PROVIDED

Buyers should know when they buy on Kiawah or Seabrook that there are community fees to cover roads, bridges and security. Other new developments may have similar fees that should be accounted for before you agree to buy.