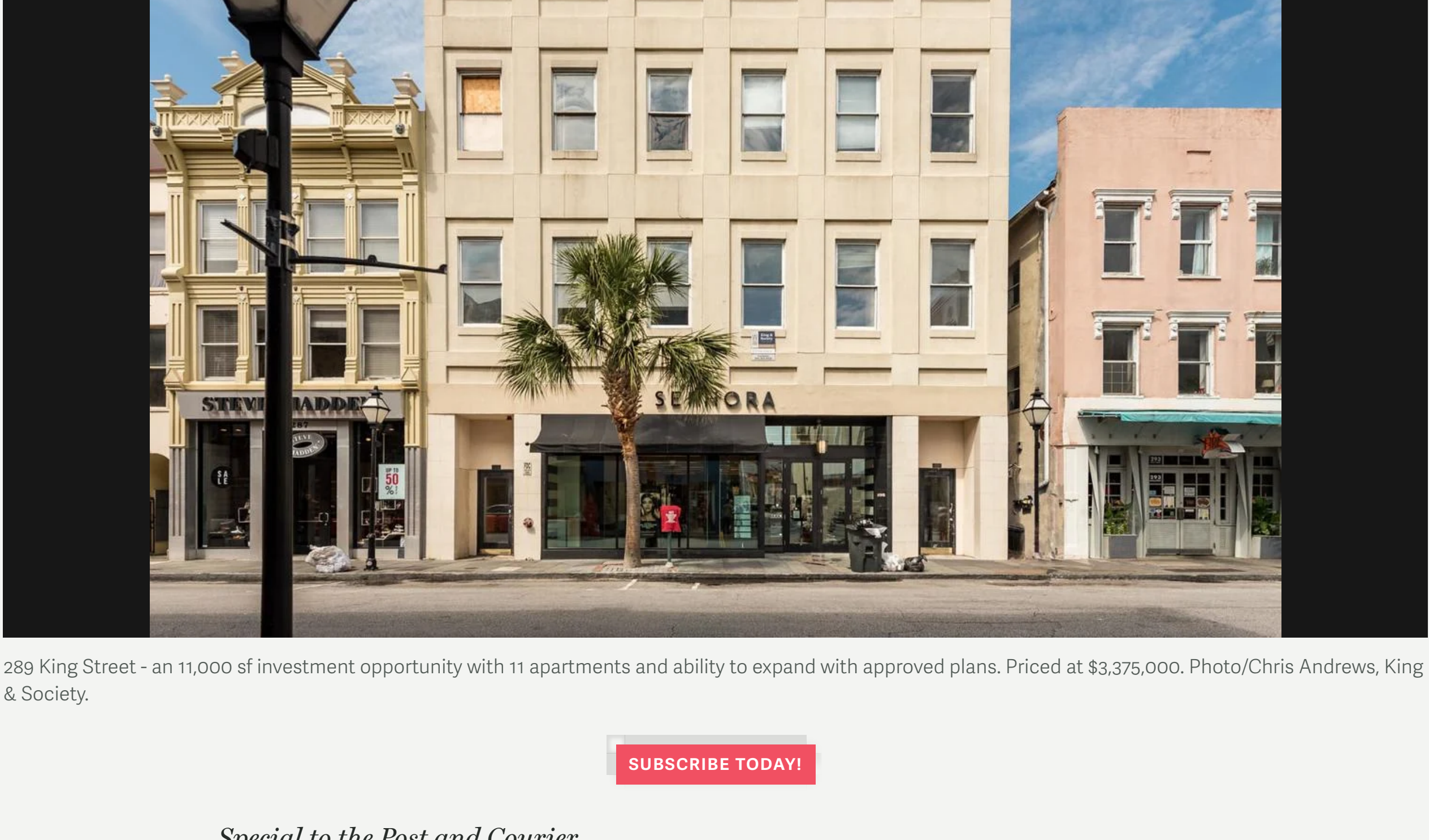




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The Right Investment: Lower inventory, but lots of potential in tri-county real estate investment market

BY DAVID CARAVIELLO
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289 King Street - an 11,000 sf investment opportunity with 11 apartments and ability to expand with approved plans. Priced at \$3,375,000. Photo/Chris Andrews, King & Society.

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There's a traditional downtown home with a double portico, a brick ranch in the suburbs, a structure in the heart of a commercial district, and an apartment building on King Street. Each address is different--and yet they're all investment properties, typically purchased with the goal of creating income for those who buy them.

The investment property market in the tri-county area continues to be active, with an increasing population and low interest rates helping to spur interest among buyers. And yet even with countless cranes looming over downtown and both Summerville and Mount Pleasant pushing their respective boundaries, investment properties aren't immune from the inventory crunch affecting many other facets of the Charleston real estate market.



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"We are seeing an increasing amount of investors searching for investment properties in the Lowcountry, but the inventory of these properties appears to be lower than in years past as investors are scrambling to find yield," said Chris Anderson, broker in charge at King & Society Real Estate. "We see clients continually looking for single family, small multifamily and short-term rental opportunities in the area, but each of these comes with risk and property management needs that many times drives the returns to below a threshold they are seeking."

James Dingle of Coldwell Banker Commercial Atlantic calls the tri-county investment market "stable," with strong off-market sales. Properties most in demand are turnkey investments and potential fixer-upper flips, he adds, and the most robust areas are downtown Charleston, Park Circle in North Charleston, Remleys Point and the Old Village in Mount Pleasant, and any of the barrier islands for potential short-term rentals through services like Airbnb.

But "the Charleston market for these properties is limited, and the return on these Charleston properties is typically lower than some other Southeastern locations," Anderson said. "Obviously, the Summerville market is booming with Nexton and the other growing developments in the area, and we are seeing a strong push for product in the North Mount Pleasant market. But inventory is limited by new impact fees and zoning constraints."

Commercial versus residential

In Charleston, investment properties run the gamut from residential homes and office space, to commercial tracts and more. Among those being listed by Andrews is a 3,700-square foot home in Mount Pleasant for \$1.5 million, and a King Street apartment building priced at \$3.375 million. Dingle's portfolio includes shopping centers, multifamily home sites, high visibility lots and commercial buildings in addition to single-family homes.

But to many potential investment buyers, it's those single-family homes that immediately come to mind--their thoughts spurred undoubtedly by the fix-and-flip phenomenon, which has been popularized by numerous television programs and is clearly one of the factors that impacts the market in the tri-county area.

But for many investors, considering commercial property may be the better move, local agents say.

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"I believe investing in commercial properties may prove to be a better long-term plan for most small and medium investors," Anderson said. "These commercial investments typically provide more stability, have better credit tenants, and are not limited by geographical constraints since most are tenant managed or managed by professional property managers where they are located."

Dingle agreed. "Savvy buyers are seeking more commercial use opportunities, if possible," he said. "They would like to have taxes and insurance included in the lease payment. Residential buyers could buy multiple, affordable properties and strategize those expenses with a good CPA."

There are also "Opportunity Zones," created by Congress in 2017 with the goal of encouraging long-term private investments in low-income communities. There are several such zones in the tri-county area, including one that stretches from the Neck area to the Crosstown downtown. Although many regulations apply, investors receive incentives such as tax deferrals and tax forgiveness.

"The various types of properties to identify are commercial real estate development and renovation, opening of new businesses, expansion of existing businesses or expansion of businesses already in the Opportunity Zone," Dingle said. "Certain tax rules do apply, and your local commercial real estate professional and CPA should be in lockstep with the regulations."

Positive indicators

The process of purchasing an investment property does not end at closing. There's also the question of managing the property, and how hands-on the buyer is willing or able to be in finding and overseeing tenants. Management of commercial properties can prompt special considerations such as outfitting the site for a specific business--restaurants, for instance, often receive a certain dollar amount per square foot back from building owners to make improvements to the property.

"Investors now are wiser and thinking more sustainably," Dingle said. "Things like reducing water consumption and electricity over time are big. These expenses tend to eat into the margins of whoever is paying."

Ultimately, Anderson added, everything hinges on the buyers' goals, and how active they want to be in the management of the property. "It can quickly become a full-time job," he said, "and I find most clients want it to be much more passive."

Finding an investment property that produces the return a buyer is seeking isn't as easy as selecting an address and writing a check, even in an area like Charleston that's bursting at the seams. But indicators remain positive, and alluring: the area's commercial sector is booming thanks to the presence of several large manufacturers, the median sales price of single-family homes in Charleston County is up 2.7 percent over last year, and Charleston's average rent of \$1,364 is higher than those in Charlotte, Raleigh, Dallas, and many other larger cities in the South.

"By real estate, not stocks, is a narrative that I sometimes preach," Dingle said. "The reliability is in the investment strategy and the budget, not always the property. Like any financial professional would ask, what are your goals in life you want to achieve? Determining your goals would indicate the path toward those goals. Some may want a bigger savings account, some may want a boat and cruise the world, some may want to be their own boss, pay for college tuition, or just live simple and debt free. Each of these can be achieved, and your real estate strategy with either residential or commercial properties can get you there."

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Chris Anderson, BIC
King & Society

"Life is not a problem to be solved, but a reality to be experienced." - Soren Kierkegaard.



Dingle

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