

# Where Do You Go From Here?

In this season of uncertainty, we asked financial, economic and property pros to tackle a bunch of real-world real estate scenarios. Their advice for everyone from nervous new owners to antsy empty nesters could help you protect your investment, too **By Kathleen Fifield**

## Empty Nesters

Big house. Kids finally out of it. Prices still high. Is it time to cash in—even if we're not really ready for retirement?

**E**xperts agree that selling the family homestead without having your next move mapped out isn't the ideal way to kick off retirement. As Glenn Meyer, a certified financial planner in Jenkintown, puts it, "This is a major lifestyle decision that requires significant research, including visiting possible retirement locations for extended periods. A terrible scenario would be if you sell your current residence, purchase your retirement home, and discover 18 months later that you made a mistake." Besides, you could be wrong about what the market will do. "Pundits don't know any more than the rest of us," Meyer says. "Don't base any real estate decision on what you read." Steven Savitz, owner of APM Real Estate in Center City, notes that *(continued on page 139)*



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he's worked with nervous sellers for the past three or four years. "They'll say, 'We're not going to retire for two years, but we want to sell now because we think we're at the height of the market.' It's funny, because they'd get so much more selling today than two years ago."

Jason Cole, managing director of Abacus Wealth Partners in Center City, adds that while many people think they'll sell high, downsize, and wind up with a jumbo retirement cushion, it doesn't always work that way. Sure, you may want your next home to be slightly smaller and with a lot less upkeep, but you might also want it to be newer and on a golf course. Many of his investment clients, Cole says, are the boomers buying luxury condos in Center City, and they're spending more on their ultramodern lofts than they recouped from their Main Line colonials. So unless all of your personal equity is tied up in your house (in which case, advisers say, you should rent or downsize for purely financial reasons), resist the temptation to make a bundle by acting fast.

**The bottom line:** Moving is never easy. Unless your nest egg is woefully small, don't rush to sell until you've settled on your next step.

### Still Flipping

The market may be slowing, but I have a lead on a great buy, and my brother-in-law can help me fix it up. So why not go for it?

Yes, says realtor and developer Steven Savitz, there are still good deals on rundown rowhomes in up-and-coming neighborhoods like Fishtown and South Philly. "But it's not the Wild West anymore," he says, when "anybody could be a real estate developer, because you couldn't go wrong." Now, your success hinges on your way with numbers: "Price point is the most important factor in the market we're headed into." Which means you should only move on that shell if there's a comfy chasm between your estimated renovation and other costs and the cautious selling price you plan to list at. You also don't want to go it alone, or with any kind of casual contracting agreement. "You want a reputable contractor with as much as possible locked into a contract that is as detailed as possible," says Savitz. "It always does cost more than anyone expects. Especially if you're not experienced, don't take it on and sub things out yourself." Another common flipping mistake, he says, is underestimating carrying costs—that is, the amount it's going to cost you to hold the property as you renovate, show it, and "settle, settle, settle."

Christopher M. Jones, principal of Keystone Financial Planning, advises extra caution with this kind of short-term real-estate investment. Remember, he says, that "real estate has the

highest transaction fees of almost any investment out there," and be careful to avoid another classic goof of assuming you'll be able to avoid a realtor's fee. Unless you have a lot of potential buyers in your personal Rolodex, trying to sell a home yourself "is a big challenge, and a risk that you don't want to take lightly." In short, he says, "Flipping is a market-timing ploy that works best in a market where prices are skyrocketing and you buy, make a few cosmetic changes, and sell. You're banking on the momentum of the market." Which, at the moment, you might not want to do.

**The bottom line:** Ours is no longer a market made for flipping; to make money now, you need to be able to control every cost.

### Nervous Newbies

We bought our first house last year and have sunk thousands into renovating it (at the expense of any savings). Now we're worried. Will we make back what we put into the house? Is it still a good investment?

First, some good news. The National Association of Realtors' latest study of remodeling costs vs. house values, which included data from Philadelphia, shows that certain types of renovations are returning more than ever before. The average \$10,499 bathroom remodel, for example, earned back \$10,727, or a healthy 102 percent, on a home's sale price in 2005; in 2002, the same project would have recouped only 87.5 percent. Kitchen remodels were other high performers, while home office and master bedroom redos didn't come close to paying for themselves. But overall, Lawrence Yun, a senior economist with NAR, recommends a cautious approach to any assumed renovation returns. Historically, he says, "It's rare where you would get more than what you invested. So when people are considering remodeling, they should do so to meet personal taste."

But assuming you've gone ahead and gutted the kitchen, the bath and the upstairs attic, where your house is located is a big factor in its resale value. While buyers will always look to areas like Haddonfield or Lower Merion for their schools and cachet, it's not the case anymore that a property in the 'burbs is necessarily a safer investment than one in the city, according to Kevin Gillen, a research fellow at the Wharton School of the University of Pennsylvania. "All the new construction in housing, as opposed to condos, is in the suburbs," he says. And the ongoing increase could affect the stability that bedroom communities' less frequent turnover typically fosters: "The new supply has not abated yet. When you add a projected cooling market plus new supply, that equals a leveling off of or decline in

prices." Of course, none of this matters much if you plan to occupy your home for a long time. Think you may relocate next year? Start putting some cash away now.

**The bottom line:** Returns on renovations are possible, but far from guaranteed. Your investment hinges more directly on how long you'll live in the home.

### Afraid to Jump In

We've been saving for two years to buy our first house. But with the market uncertain, we wonder: Should we just keep renting?

For a moment, put anxiety about prices, mortgage rates and resale values out of your mind. What you should be worrying about most is your own staying power. Wharton's Kevin Gillen says that buyers who aren't professional real estate investors need to stop looking at real estate as a short-term investment, especially since home appreciation appears to be slowing. "Real estate grows in value as the overall economy does," he says, which means that while owners have grossed 20 percent annual increases recently, something more like five percent is historically more likely. Christopher Jones also stresses how seriously your ability to stay put should influence your decision to buy. "Real estate is a much bigger gamble in the short term than, say, stocks," he says, given the interest you're taking on and the transaction fees. In fact, he says, unless you work for a company that subsidizes any loss you might take if you have to move suddenly, you should plan to be in a home for at least three years to even consider purchasing it. If not, he says, you're statistically better off renting. Gillen also cautions buyers to look at our region's rising price-to-rent ratio, which indicates that the cost of owning vs. renting has inched up over the past two years. This shouldn't keep you awake at night (it can be a sign of a healthy real estate climate, and our ratio has been low compared to those of other major cities), but it should motivate you to carefully calculate monthly expenses associated with either option.

Of course, realtors have a more optimistic slant, and for Mike McCann, an associate broker for Prudential Fox and Roach, it goes something like "Bubble schmubble." "We've been hearing that this bubble is going to bust since 2000, and prices have doubled or tripled since 2000," he says. "People who bought from me one year ago are amazed by how much their homes have gone up in price." For him, a slightly smaller market and its reined-in prices, plus still-low mortgage rates and a Center City renaissance, combine to create even better conditions for first-time buyers.

**The bottom line:** Get detailed about your monthly costs of owning vs. renting, and buy only if you plan on staying for several years.

## Cramped and Wondering

With child number three on the way, we'd like more room (and rooms). Should we use the appreciation on our first home to buy a larger one? Or should we sit tight?

In this case, Main Line mega-realtor Lavinia Smerconish notes, "There's no substitute for looking." The more you get a sense of the micro market in a specific neighborhood, the more you'll know if buying something bigger is right for you. Just be warned that you might find the perfect upgrade on your first trip out. "It's happened twice recently," Smerconish recalls. "I've taken them out, and on Day One we see what I know is the right house. But it feels irresponsible to them to buy that first house, because they don't know the market and what else could be out there. It's very difficult for the buyer when that happens."

**The bottom line:** Call a realtor and see what's out there—but be prepared to fall in love.

## Stretched to Buy

We've put everything into a beautiful home in a hot community, thinking that our month-to-month sacrifice would pay off a few years down the line. But are stretched finances and a shaky market a recipe for doom?

Despite the rampant tales of real estate fortunes made overnight, adviser Christopher Jones is emphatic that your home "shouldn't ever be thought of as an investment strategy per se." That is, your financial security shouldn't depend on what the real estate market does or how much you think you'll be able to earn from a future sale. But assuming it's a little late for such advice, you've got the difficult task of figuring out whether you can take the risk of the market dropping or home values stalling. If not, you should sell. "To downsize is the toughest recommendation to make to a client, because it affects every aspect of their life," says Jones. When he advises it, it's not because someone is merely skittish, but because he or she is in serious budget trouble—like clients of his who purchased a half-million-dollar home but were going into debt to buy food. They'd made the common mistake, he says, of banking on a bonus, a future raise, or other inflow that hadn't materialized. "If they're not anticipating a major change in spending and are living beyond their means and going into debt, I recommend they sell and buy something that gives them a more balanced lifestyle."

And if you're after stability the next time around, pass on the newfangled financing options that have enabled people to purchase more house than they otherwise could have afforded. If you've bought a home with an interest-only, adjustable rate mortgage, says Kevin Gillen, you're in essence "renting with

an option to buy, and the only way you make up the difference is if the value of the home increases more than the interest on your mortgage." Such jumps have occurred, he says, in neighborhoods like Bella Vista and Northern Liberties, but "rarely happen in perpetuity."

**The bottom line:** If you're truly living beyond your means, sell now and downsize. And stop thinking of your house as a cash cow.

## Gotta Sell Now

We need to sell our home and relocate this spring but are getting worried about slowing prices and longer times on the market. What's the secret to selling well in what's starting to look like a buyer's market?

First off, says Lavinia Smerconish, don't panic. Yes, things are taking longer to sell, and prices aren't rising as they had been. But she sees recent changes in her upper-end Main Line market as more of a return to a "real market environment" after a several-year heyday, as opposed to a deep correction. (And economists back up her view.) To her mind, selling now comes down to "price and polish." Gone are the days when an extra \$20,000 here or there didn't matter, "because buyers would have been making that much in appreciation before they even settled." Now, she says, zeroing in on the right price for your house at the outset is critical, since buyers are more carefully hunting for value. The right number is so important in this market, Smerconish says, that she's been increasingly calling in teams of outside pricers to help her hit it, especially for her homes that are historically or architecturally unique. Beyond the numbers game, she says, it's about getting your house into "absolutely top-notch condition," so you'll be more competitive. To her, that means interior and exterior freshening—painting, landscaping, waxing, buffing, "anything that can be done without a major renovation." It also means putting aside (that is, into storage) your own possessions, collections and furnishings in favor of the neutral, space-maximizing effects of professional stagers, whose services Smerconish and other realtors report they've been using more in the past several months than ever before.

**The bottom line:** Push the sugarplum dreams out of your head and set a realistic asking price. Then start obsessing about appearances—you need curb appeal and a pristine interior to compete in the market ahead.

## A Mortgage for College

Private liberal arts schools for our two daughters mean we need to tap our equity this year. Any advice for the smartest way to do this?

Christopher Jones calls borrowing against your home equity a "really touchy issue." While many people assume this kind of loan is tax-deductible, you may not qualify for the exemption, and amounts over \$100,000 may be taxed if they're not used to improve the home. Jason Cole, of Abacus Wealth Partners, says he'd also be watchful of the adjustable or variable rates that such home equity mortgages or lines of credit can carry. "Those mortgages are at prime plus or minus one," he says, which means you could be borrowing at a rate of up to eight percent—and if your rate is variable, even more later on. A better bet, Cole says, might be to take on a margin loan secured by your investment account (so you're borrowing against a stock portfolio instead of against your home). "You might get a lower rate and, in some circumstances, a bigger tax deduction," he notes. Or think about refinancing your entire home with an extra \$100,000 rolled into the principal. The advantage there is getting a fixed rate that won't surprise you down the road.


**The bottom line:** Proceed very cautiously, and only if other, safer options are unavailable.

## Second-Home Jones

We're shopping for a second house, this one at the Shore. Should we just hold onto our cash?

That depends. Is it an investment, or is it for long weekends with the grandkids?

If you're in it primarily for the dough, keep in mind that one of the chief ways economists identify bubbles in a market, according to Kevin Gillen, is by the number of speculators: "When people are buying homes they don't plan to occupy year-round, you eventually have more homes than people to occupy them." In time, he says, a glut of empties can lead to drops in rent and, possibly, home values. On the other hand, several experts noted, as a locale for a personal getaway, the Shore isn't a bad bet, given its proximity to two major cities and limited coastline. (Did you hear about the \$7 million oceanfront tear-down?) Lawrence Yun, of the NAR, says the Shore is considerably safer than, say, Florida, which he believes to be a bubble caused by so many boomers "pre-buying" their retirement homes. In terms of financing your second home, Yun recommends a large down payment. "Lenders consider a second home purchase more risky, and they like to put a little higher interest rate on those second mortgages." Putting more down can help you avoid such a hike.

**The bottom line:** Beware the second home as investment strategy, but if you have the cash, few think the Shore will dry up. 

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