



Home Improvement

Best And Worst Neighborhoods To Buy A Home

Sara Clemence, 03.10.06, 12:30 AM ET

http://www.forbes.com/2006/03/09/home-price-appreciation-cx_sc_0310home_ls.html



© Shutterstock

3. Dallas, Texas

ZIP Code: 75231
Neighborhood: Lake Highlands
2005 Median Sales Price: \$234,213
Total Price Appreciation 2003 to 2005: 125.3%
Appreciation for New Homes: NA
Appreciation for Existing Homes: 129%

The south Los Angeles neighborhood of Watts has been notorious for many things, among them race riots, poverty and gang warfare.

Now it can be known as a great real estate investment.

Over the past few years, rising property prices have rocked the state of California with an earthquake-like vengeance. Luxury subdivisions have filled hillsides, bidding wars have pumped up home sales, and teardowns have sold for more than \$1 million. Los Angeles saw home prices increase about 50% from 2003 to 2005, according to the National Association of Realtors, a trade

group based in Washington, D.C. The median sales price for an existing home in L.A. stood at \$529,000 at the end of last year.

One might think that the bulk of that appreciation came in wealthy and well-known enclaves like Beverly Hills or Bel-Air. But according to a Forbes.com ZIP code analysis, within the Watts ZIP of 90059, home prices rose 91.9%; more than any other ZIP in Los Angeles. Meanwhile, had you sunk your funds into the upscale neighborhood of Holmby Hills, you would have the least amount of appreciation in the city--under 9% from 2003 through 2005.

It is a pattern that held true in several of the largest cities in the U.S. over the past two years. Long-coveted areas, such as Pacific Heights in San Francisco, Buckhead in Atlanta or the Upper East Side in New York, were not the best performers. Instead, in many metros, neighborhoods with lower median incomes, neglected housing stock and low prices, or areas that were dominated by office or industrial space, have surged forward.

For investment performance, think Miami's Little Havana, where prices increased more than 150% over the last two years. Or the tough Northern Liberties section of Philadelphia, which went up 70%. Or Manhattan's Lower East Side, where tenements that once sheltered struggling immigrants are now occupied by high-priced lawyers, and the median home price is more than \$650,000, according to real estate appraisal and consulting firm Miller Samuel.

"In the past, you would expect that neighborhoods with higher median incomes would have stronger demand for homes," says **David Lereah**, senior vice president and chief economist for the NAR. "Lower-income neighborhoods will have more renters. Higher-income areas will have more demand from people wanting to climb the ladder. It means that some things have changed."

As prices have increased, some of the most desirable neighborhoods--which have always been more expensive--have topped out, becoming unaffordable for many home buyers. So instead of buying charming but overpriced stone homes in the leafy Baltimore neighborhood of Guilford, for example, young families turned to blue-collar areas near the water, rehabbing old row houses that seemed cheap in comparison.

Jonas Lee, a founder and managing partner of Redbrick Partners in Manhattan, a private investment fund that puts money into single-family homes, is not surprised. His company targets just such urban areas for investment.

"It takes people a while to figure it out, but there's a very large arbitrage between these neighborhoods and some of the nicer neighborhoods," Lee says. "Once that price differential is large enough, people start to recognize the opportunities, and then there's a sort of a herd mentality. It's leading to the revitalization of neighborhoods that had not seen a lot of investment for a long period off time."

This shifting of money isn't limited to individual neighborhoods--it mirrors a national trend.

"I call it the 'rolling boom,' " Lereah says. "Vegas to Reno was the first thing we saw."

In 2004, the median home price for Las Vegas went up a startling 52%, he says. But by 2005, it had dropped to 12%.

"What happened was, Reno went up 32%," he says. "Then it appeared the boom rolled to Phoenix. You saw similar things in Boston; first Boston got the boom, then it rolled to Providence, R.I., and the air came out of the balloon in Boston."

Not every city we looked at fit the rolling-boom pattern, however. Metro areas such as Dallas and Minneapolis-St. Paul have not seen tremendous real estate price gains in recent years. In Dallas, where the median existing home price went up 6% last year, according to NAR, the greatest appreciation is still coming in more established, pricier neighborhoods. Same goes for Minneapolis-St. Paul, where prices overall rose 4.5% in 2005. Prices are difficult to pin down in Phoenix, which has seen tremendous growth; a new community can spring up in a year, utterly and suddenly altering the prices in a neighborhood.

To get a snapshot of how prices have been moving, we turned to Brooklyn-based real estate data firm OnBoard for numbers on all cities, except for parts of New York. For 20 of the largest metropolitan areas in the country, OnBoard gathered the median home prices from 2003 to 2005 for all the ZIP codes the U.S. Postal Service associates with each city. We tossed out ZIP codes that had fewer than 30 sales in any year during that period because they would not reliably show trends. We then searched for the best performing and worst performing in each city since 2003 and determined the neighborhood or neighborhoods primarily associated with each ZIP.

For New York City, OnBoard gave us ZIP codes for four of the five boroughs. Because 85% of the apartments in Manhattan are cooperatives, which do not have to publicly list property transfers, we turned to real estate appraisal and consulting firm Miller Samuel for the inside scoop.

See which ZIP codes in the 20 largest metro areas had [the greatest appreciation](#) and [least price appreciation](#).