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America's Next Hot Neighborhoods

For price-sensitive buyers, we identify the areas in the U.S.'s largest cities that offer the best quality of life and investment potential

by [Maya Roney](#)

"Up-and-coming," "gentrifying," "on the rise"—terms like these can be realtors' rhetoric or a red flag for homebuyers. But less-pricey city neighborhoods where home values have shot up in the past few years are worth scouring for deals, especially now that prices have dipped in many areas (see BusinessWeek.com, 2/19/07, "[Out of the Basement for Housing](#)").

There's usually more behind their increase in value than just the overall increase in property values across the U.S. over the past five years. Factors such as schools, improved crime rates, high employment, and access to public transportation make these neighborhoods increasingly appealing to price-sensitive buyers.

BusinessWeek.com worked with online real estate service Zillow.com to come up with a list of the next hot neighborhoods in 10 of the country's biggest cities. Looking at Zillow's database of historical home valuations, we identified the neighborhood in each city that saw the most median home-value appreciation in the past five years, excluding neighborhoods where the median home value was currently above the median home value for the city.

The result: neighborhoods with both relatively affordable housing and a recent history of significant appreciation. Though identifying undervalued and undiscovered areas is far from an exact science, these neighborhoods have what it takes to become solid investments—and places to live. In spite of double-digit appreciation in the last few years, the areas' low home values (compared to the overall cities) suggest there's still room for considerable growth.

DOWNTOWN DEALS

Several years back, the working-class immigrant neighborhood of Pico Union in downtown Los Angeles was one of the poorest parts of the city. The median home value in the fourth quarter of 2001 was \$129,621, according to Zillow. Today, 500-square-foot condominiums are selling in the \$300,000s, according to Stephen May, a real estate broker and condo specialist at L.A.'s Downtown Residential Realty. And that's the low end—\$4 million penthouses aren't an unusual find in this rapidly gentrifying neighborhood.

"There's a boom going on downtown," says May. "Homes are now available in any price range." Of course, not everyone is benefiting from the rise in prices in Pico Union. The traditional low-income immigrant community, largely from El Salvador, is being forced out of the neighborhood by rising rents and the bulldozing of old buildings.

According to Zillow's estimates, home values in Pico Union have soared almost 300% in the past five years, to a median home value of \$516,498. But in Los Angeles, where the median home value is nearly \$600,000, Pico Union remains a steal for many buyers.

City centers are often good places to find value neighborhoods. They may have higher crime rates, but they have become increasingly appealing to affluent professionals looking for transportation hubs, pedestrian accessibility, and an urban social scene. Artists and so-called hipsters may also sacrifice a little space and safety for a cheaper home in a diverse and creative area.

Like downtown L.A., Denver's Civic Center neighborhood is seeing revitalization as the city cracks down on crime and spruces up the streets and sidewalks. Qwest Communications ([Q](#)) remains the top public employer in Denver. Strong local economies are fueling the growth of other city neighborhoods on our list—most notably in the Mission Bay part of San Francisco, where retailer Old Navy, which is owned by Gap ([GPS](#)), is headquartered.

BECKONING BOROUGHS

Good values exist in just about every city, if you know where to look. In notoriously expensive New York City, homebuyers can find a relative bargain in the community of Kingsbridge Heights in the Northwest Bronx, where the median home value is \$442,544, compared to the city's \$936,439. Zillow estimates that the median home value was \$99,546 in the fourth quarter of 2000.

Kingsbridge Heights has always been a middle-class neighborhood with decent schools, but some surrounding Bronx areas have a less-than-stellar reputation when it comes to crime and school systems. This may have shielded the area from buyers in the past, but the area's proximity to mass transit (you can easily hop on the 1, 4, and D subway lines to Manhattan) has turned it into a hot spot for Manhattan rent refugees.

"There seems to be a marked increase in Manhattanites starting a family [buying in Kingsbridge Heights]," says Brad Trebach, a realtor based in the neighboring community of Riverdale. "They're looking for elbow room, a neighborhood with trees and grass." Given its proximity to 1,000-acre Van Cortland Park and the Jerome Park Reservoir, Kingsbridge Heights has plenty of space and greenery to offer.

Venturing to the fringe may also pay off in other cities, like Boston, where the neighborhood of Dorchester remains affordable even though home values there have increased nearly 60% in the last five years. The median home value is now \$331,896, according to Zillow. Almost a separate city in itself, Dorchester is a large and diverse working-class community south of Boston's center, with many Irish and Southeast Asian immigrants, as well as a significant African American population. Residents enjoy riverfront amenities like beaches and boating, as well as the green space and recreational activities of 527-acre Franklin Park.

FOCUS ON POSSIBILITY

The phrase "up-and-coming" can sometimes be code for a dangerous area, so it's important to make sure you're comfortable with the neighborhood and the potential risk it may pose to you as an investor.

Whether you're searching for the next hot spot or just trying to find a cheap and funky place to live, homebuyers in so-called up-and-coming areas should focus on four main factors, according to Thaddeus Wong, co-founder of @Properties, a Chicago-based brokerage specializing in emerging city neighborhoods.

First and foremost, consider the neighborhood's transportation infrastructure. Is it close to mass transit and highways? Is the transport fast and efficient? "In a developing neighborhood, the ease of getting in and out is crucial," says Wong. "We've seen the highest velocity of price increases in these areas."

A neighborhood's commercial infrastructure—whether it has space for restaurants and shops, heavily trafficked streets, and ample parking—is also important in determining the area's potential for success, Wong says. "You have to bring people in with art galleries and restaurants. That's how people become familiar with neighborhoods."

Neighborhood zoning laws also play a role, according to Wong. If the zoning is more flexible and for larger or more units, either residential or commercial, the area will gentrify more rapidly. The wild card, Wong explains, is local politics—some

politicians don't want development, while others embrace it.

Everyone knows someone who bought a home in an undesirable neighborhood and got rich when the area got hip. But anyone buying in an area that hasn't seen any recent development is gambling. To play it safe, make sure the neighborhood has something going on before you take the plunge. "You don't want to be the first guy there," says Wong. "You're better off being the second or third one in."

METHODOLOGY

Zillow arrives at its home valuations, called Zestimates, using an algorithm that considers a range of publicly available data for all the homes in a given area (not just the homes sold). While this isn't an appraisal, Zillow says the majority of its Zestimates are within 10% of the selling price of a home.

Using Zillow's database of historical "Zindexes"—the median Zestimate in a given region—we identified the neighborhood in each city that saw the most home value appreciation in the past five years (six years in the case of New York City), excluding neighborhoods where the median home value was currently above the median home value for the city. Zillow identifies a neighborhood as a center point and homes within a 1-mile radius of that center point in a given city.

[Click here](#) to see a roundup of America's Next Hot Neighborhoods.

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