

America's Next Hot Neighborhoods

Ten areas that offer both affordable housing and rapidly rising home values in some of the country's largest cities

Dorchester
(Zindex: \$415,483)

Most Up & Coming Neighborhood: Dorchester
Q4 2006 Zindex: \$331,896
Q4 2001 Zindex: \$207,924
5-year change: 59.62%

Dorchester is the largest neighborhood in Boston, located south of the city center. It is a diverse working-class community with many African-Americans, Vietnamese, and Irish immigrants. The area's Franklin Park features 527 acres of green space, a zoo, and an 18-hole golf course.

"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.

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."