

Learn how to make smart real estate investments in under-developed areas
**THAT CAN MAKE YOU MONEY
DECADES DOWN THE ROAD.**



LAND of OPPORTUNITY

IN EVERY AMERICAN CITY, there are areas that—while smoking hot now—were decidedly less desirable decades ago. Still, developers armed with imagination and a willingness to take a risk invested in them anyway. How did these would-be Donald Trumps know that yesterday's swamplands would be today's swanky neighborhoods? While experts don't claim to have a crystal ball, there are five indicators that make developing a property an attractive proposition.

FOLLOW THE PATH OF PROGRESS

Jeff Adams, a real estate investment consultant, says new highways are a good indicator for property investors. "In Southern California, when the state began to build a free-way connector to link the 210 highway to the 215 in San Bernardino, investors knew this was an area worth exploring," he says. And when the freeways were connected a few years later, property values practically doubled overnight.

LOOK AROUND YOU

Another key to choosing an investment property is to look at neighborhoods surrounding high-value areas. "As a location becomes saturated, the growth has to have somewhere to go," says Robert Blumenfeld, a real estate developer in San Francisco.

One example: About 10 years ago, San Francisco's South of Market neighborhood, which had been a



(clockwise from left) Lower Manhattan; Virginia-Highland, Atlanta; Yerba Buena Center for the Arts in South of Market, San Francisco



fairly deteriorated area, started to turn during the dot-com boom. The reason? Blumenfeld says the close proximity to downtown and the Financial District, combined with relatively low prices, helped tag it as the place where growth was going to go next. And it did: Today, it is still one of the fastest-growing and hippest areas in the city.

NOTICE SHIFTING DEMOGRAPHICS

Luigi Rosabianca, a prominent real estate attorney in New York, believes that neighborhoods in transition can provide excellent opportunities. “Consider what happened to downtown after 9/11,” he says. “There was a mass exodus of commercial tenants, and, in order to deal with this, the government offered tax incentives to develop the area.”

He also points out that because Lower Manhattan is extremely well serviced by mass transit, and the city had a large—and growing—population of young workers (all of whom needed housing), the area was ripe for redevelopment.

RIDE ON THE COATTAILS OF RETAIL

There’s no denying that large stores in big cities attract the masses looking to buy commercial products. But it’s the prominent retailers that set up shop in less developed areas that pique the interest of potential investors. According to Cyndy Salgado, vice president of development marketing at the Chicago-based real estate firm Koenig & Strey GMAC, “Here in Chicago’s North Side, plans were announced for a Borders book

store. Once investors heard this, they knew property in that area was going to do well.”

Certain retailers, such as Costco, Borders and Starbucks, have the ability to bring in other retailers, residential developers and buyers.

ANTICIPATE TOMORROW’S BUYERS

Pam O’Connor, president of Leading Real Estate Companies of the World—a business that brings together nearly 700 real estate companies around the world—says that today’s smart investor is focused on tomorrow’s savvy buyer. “Generations X and Y have very different home-buying habits than their Baby Boomer parents,” she says. “They don’t want long commuter times or McMansions.”

So what do they want? According to O’Connor, the answer is smaller houses that are convenient to public transportation and their offices.

“When you take this into consideration,” she says, “it stands to reason that closer-in neighborhoods, which may not be great today, will be rebounding in the decade to come.”

She cites Grant Park and Virginia-Highland in Atlanta as examples of areas that were in disrepair, but through an influx of new, younger buyers, had resurgences and are very respectable neighborhoods today.

The pace at which developers expect a return on their investment has shrunk from 30 years to 10 years, according to Blumenfeld. Still, whether it’s a decade or three down the road, remember to hold on to your real estate. As Rosabianca puts it: “What is trash today may be a treasure tomorrow.” ✂

FOCUS ON THE FUNDAMENTALS

According to Jeff Adams, a real estate investment consultant, it is crucial to understand the four cycles of the real estate market before making an investment.

BUYER’S MARKET

Stage One: A large amount of inventory is available and property is depreciating. “In many parts of the country, this is where we are today.”

Stage Two: Characterized by foreclosures and expired listings, this is when the best deals are to be had. “Buyers can pick up properties for 50 or 60 cents on the dollar, and then hold on for long-term appreciation.”

SELLER’S MARKET

Stage One: The amount of time it takes to sell becomes noticeably less. “Consider a few years ago, when houses were selling in 72 hours.”

Stage Two: With a lack of available inventory, it’s the ideal time to sell property bought for a song when it was a buyer’s market in stage two. Sell at a premium price, sometimes within 10 hours of listing.