

How to Pick a Good Area!



By Brian Madigan LL.B.

This is a common question posed by homebuyers. How do you know a good area and how do you find one?

The answer is actually fairly simple. Of course, it depends upon what you are looking for and also what you can afford. But, let's assume you have several neighbourhoods to choose from, in your price range.

The Ten Year Rule

The proper test questions all relate to the 10 year rule:

- 1) what was the area like 10 years ago,
- 2) what is the area like now, and
- 3) what will the area be like 10 years from now.

The answers to these questions will point you in the right direction. Just about all areas will follow through a cycle. They are brand new and relatively expensive. The price is reflective of the cost of recent, new construction. As new families move into the neighbourhood; schools, playgrounds, parks and plazas will complete the area, and it becomes more desirable. In about 10 years, the early plantings have taken effect and for the next 15 years the area improves in its desirability.

However, 25 years after the houses were built, the laws of nature have had an effect. The furnace, the air conditioner, and the roof all need replacement. The windows and the basement both leak. The electrical system can no longer support the requirements of a modern, active household. The kitchen and the bathrooms all need renovation.

So, the value of the house falls and the area to some degree is less desirable than it was 25 years previously. Around the neighbourhood, there are signs of neglect. Not everyone can afford a new roof, or new windows, or new siding, or a new fence. The area declines in relative value.

And, don't forget about the competition! Not too far away, there are brand new homes in a brand area starting the cycle from scratch. That means that they are only getting better, and the older neighbourhood is getting worse.

The second stage of the cycle is the general devaluation of the homes in the area. Some areas just keep getting worse and worse, while other areas soon reach the third stage: rejuvenation.

In every city, the usual rule of thumb is that the new houses are constructed in new subdivisions. These new subdivisions are generally located at the perimeter of the city. Generally, these new subdivisions are further and further from the downtown core. Assuming that the downtown area is desirable, then buyers will begin to look for opportunities once again in the older neighbourhoods.

If you live in one of these areas, why not remove some of the overgrown trees and vegetation. What about replacing the roof, renovating the kitchen and bathrooms? Why not construct an addition to house the new family room? If that makes sense, the homeowners will do it. And, if they do it, someone else may do it too. Then, there's less risk for the next person. Now, we have the start of a new trend. The area is "hot again". It's now "cool" to live there. The location never changed, but, on a relative basis, (compared to the rest of the city), it's closer to the downtown than it ever was before. In addition, when the demand is high, it will make sense to consider a complete demolition and reconstruction on the lot. These are the signs of a hot, new neighbourhood.

So, what are you looking for? Where does your area fit? What about the area you are looking at?

Remember the 10 year rule:

- 1) what was the area like 10 years ago,
- 2) what is the area like now, and
- 3) what will the area be like 10 years from now.

Obviously, the answer to the last question has to be "better", otherwise, why would you buy it? You should also be able to say, that right now, it's "improving". If not, then it could be on a downturn, and you don't know it yet.

The Real Estate Cycle

These same trends take place in all price ranges and in all locations throughout the city. These same trends will continue for decades to come. The real estate cycle which seems to turn in quarter centuries is:

- 1) improvement and appreciation (incline)
- 2) disrepair and depreciation (decline)
- 3) rejuvenation (incline)

The best areas are those where the residents who occupy the houses can afford to live there. That means that the wealthy areas are likely to be well-maintained for longer periods of time, than the poorer areas, which as time goes by can fall into disrepair.

So, the only way you can tell about these neighbourhoods is to:

- 1) drive around and tour the entire area, and
- 2) review the MLS sales statistics over the decade.

If you don't like what you see, then move on to a different neighbourhood. The cheapest way to move out of an area, is simply to drive away, BEFORE you buy! Once you live there, it's your problem.

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