Today we are going to look at the age-old saying, “don’t be the best house on the block” and understand why this is still applicable in today’s real estate market.

Let’s start off with an extreme example to help us visualize the two opposing situations. Purchasing the best house in the worst neighbourhood vs. the worst house in the best neighbourhood.

We can assume that most buyers are searching for a particular type of house to purchase (example: 3 bedrooms, 2 bathrooms, garage, and a yard).

Compared to the other houses around it and the neighbourhood it’s in, that same house may be considered the best house in one neighbourhood but the worst house in another. It all depends on the popularity of the neighbourhood and the type of houses that surround it.

So lets explore these two extreme examples:

**Scenario 1: Best House in the Worst Neighbourhood**

The worst block in town borders an industrial area and is far from schools, public transit, retail stores, and parks. The surrounding houses have not been properly cared for and appear very run down.

You find the house you like on this block; however, it’s a shining beacon of hope in an otherwise desolate grey wasteland.

Some obvious issues with this situation:

* Increases in overall house prices will have less of an effect on your property.
  + This is an important idea so lets break it down further with an example:

People often only compare the actual dollar value increases of surrounding houses. If a neighbourhood has increased in price by $5,000 to $15,000, they often apply that to all houses in that area regardless of the starting price.

Therefore if your next-door neighbours house increases $10,000 but was originally worth $100,000 that’s a large increase of 10%. If your house was worth $200,000 potential buyers may consider it to have increased similarly, by $10,000 maybe up to $15,000. This is only an increase of 5% to 7.5% but not the full 10% enjoyed by your neighbour.

That means that as the best house on the block you don’t get to take advantage of price increases as much as surrounding neighbourhood.

* Location is very important.
  + Are you willing to sacrifice parks, clean air, schools, stores, and peace of mind for your new house?
* Fewer potential buyers mean a lower resale value and that’s less profit.
  + Buyers who want this house will also be able to find something similar in a nicer area.
  + Buyers who can only afford to live in your area might not be able to afford your house.
* A run down house next-door will worry potential buyers of the quality of their new neighbours.

**Scenario 2: Worst House in the Best Neighbourhood**

The best block in town is beautifully lined with 100 year old trees and large yards. The area is close to the water and residents have access to outdoor activities such as hiking trails, baseball diamonds and dog walking parks. Retail shops, groceries, and nightlife are just a walk away.

Do you buy the worst house on the block?

* Overall market increases will have a greater affect on your house price compared to surrounding houses.
  + When the overall market is growing, popular and expensive neighbourhoods will see larger dollar value increases compared to our worst neighbourhood example above. That means a larger percentage increase in your house price.
* The worst house might allow you to live in the neighbourhood of your dreams for less.
* Renovations may bring your property up past “worst house” statues.
  + If you fix up the property and it is no longer the worst house on the block it will further increase the resale value of the home.
* Highly sought after neighbourhoods will weather bad economic times better than others.

**5 Tips for Finding and Buying the Worst House on the Block**

* Choose a Neighbourhood
  + Understand the neighbourhoods real estate market. Have your real estate agent show you recent comparable sales. This will allow you to understand what the surrounding houses are worth.
* Understand the Property’s Shortfalls
  + It appears to be the worst house on the block, but why? If the problems are due to something in the area or the location than maybe this one isn’t for you. Those are variables you are unable to change.
  + Issues such as out-dated appearance, required renovations, and clean up are all issues you can control and manage. These issues can be fixed and contribute to the increasing resale value of the house.
* Have a Home Inspection Completed
  + These normally only cost a few hundred dollars and are well worth it. Professional home inspectors will point out many of the often hidden fundamental issues within the property.
* Receive Renovation Estimates
  + If you’re buying the worst house on the block you might be able to increase the resale value through renovations. If after such changes the house is no longer the worst on the block that could mean big gains.
* Set Reasonable Expectations for Renovations
  + Make sure you understand the total cost of renovations and the timeline. Renovations often end up costing more and taking longer than originally anticipated.
  + Would a renovation costing 30% more and taking twice as long still be feasible? If not, consider smaller jobs at first.
  + If there are substantial renovations make sure to include that into your bottom line before placing an offer on the house.

**Conclusion**

Remember, this is all from an investment perspective. If you plan on buying a home and living in it until you grow old than the largest house in the neighbourhood might be right for you.

However, from an investment perspective, it is smart to avoid the best or largest house in any given area. On the flip side, you don’t always have to try and find the absolute worst house in a neighbourhood if you want to make a smart investment.

If it’s not the worst house, make sure to find a home that includes the types of characteristics and features that people are interested in. A neighbourhood with young families want access to nearby schools, a yard, and enough bedrooms and bathrooms to keep everyone sane. But that’s for another post entirely.

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