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The Starbucks Effect

Do retail chains really boost real estate values?

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A few weeks ago I wrote about my brother-in-law who'd just decided to buy his first home. While I was on a business trip last week, he gave me a quick tour of his new place: a 1920s row house in Washington, D.C.'s Petworth neighborhood with exposed brick, good bones and lots of space. He was quick to point out the hip restaurants that were opening up nearby, as well as a new upscale condo project rising a few blocks away. Such neighborhood developments, he said, were sure signs that the neighborhood was on the up. But then I asked, "How far is it to the nearest Starbucks?"

While reporting on real estate the last few years, I've been surprised by how often I've heard house-hunters and real estate investors alike talk about the presence or expansion of certain retail chains as a surefire indicator that a neighborhood's home values were set to spike. One real estate pro told me the perfect place to buy a rental property is a town where Home Depot has just constructed a store and Starbucks is about to move in. Blogger Sarah Gilbert offers similar advice, which she calls "the smartest real estate strategy ever." "Buy, immediately, in a neighborhood where a Starbucks is planned," writes Gilbert, who says her own home value doubled shortly after an outlet of the ubiquitous coffeehouse opened nearby. (Of course, since she wrote that in 2006, it's hard to say how much of her home's appreciation exists today.)

People who believe in this logic say that growth-oriented chains like Starbucks and Home Depot do tons of economic and demographic research before moving into a new town, and that their decision to locate a store indicates a big vote of confidence in the area's economy.

Adam Epstein of **Site Analytics**, a New York-based firm that helps chains analyze data to choose new locations, says he does sometimes observe a "snowball effect," in which the creation of a subdivision gives a particular retailer the confidence to site a store nearby, which in turn boosts demand for houses, which draws in more retailers, etc. Epstein also says that as some retailers (including Starbucks) have begun promoting future locations on their Web sites, more real estate investors seem to be making use of the data. "Among homebuyers, [Starbucks] is seen as the ultimate validation," Epstein says.

This would seem a strange time to talk about Starbucks and Home Depot as leading indicators for local real estate purchases, since both chains have been struggling of late. In April, Starbucks founder Howard Schultz acknowledged that his company is "experiencing some difficulties as a result of some tough operating conditions in the U.S.," and last month Home Depot announced plans to close 15 existing stores and take 50 planned stores off the drawing board as its earnings shrink due to the ongoing housing crisis. Indeed, if Americans have learned anything as a result of the ongoing housing meltdown, one would hope it would be to buy a house because it's a good place to live and not based on the hope that its price will double or triple. Still, despite the current troubles, most buyers can't help looking for a home that seems likely to appreciate, and some buyers still view these companies' site decisions as a leading indicator of sorts.

Consider George Vaughan, an advertising salesman in Portland, Ore., who first heard about the concept he calls "the Home Depot Magic Rule" from his accountant a few years ago. The accountant had another client who'd been buying investment property in towns where Home Depot planned to build new stores. This client had bought a bunch of houses in such a town in Oregon; over eight years they appreciated from $120,000 to $400,000 apiece. Vaughan, whose accountant was urging him to buy some rental properties to improve his tax situation, zeroed in on an Oregon town called Hermiston, about three hours east of Portland, and ultimately bought two homes there.

"It was on the way to nowhere, [but] it had a Wal-Mart distribution center, and then a Wal-Mart was built there," says Vaughan, who bought two new homes in Hermiston in 2005, paying $114,000 and $120,000. By 2006 Hermiston had both a Home Depot and a Starbucks. And even as housing prices have fallen in many places, Vaughan estimates he could get at least $135,00 today for each of his properties, which are also delivering tax deductions while he rents them out.

Of course, as both Starbucks and Home Depot have infiltrated so much of the country (and perhaps become a little too ubiquitous in some places), this strategy becomes far less useful. When my wife and I bought our house in the Massachusetts suburbs in 1999, there was no Starbucks nearby; now there's one within two miles, but that's probably true in most areas where we'd consider living. **Epstein, the store location wizard**, can't help laughing when I ask about Starbucks locations near his home: he lives on Manhattan's Upper West Side, where the chain seems to have a location every few blocks down Broadway.

Alas, there is no Starbucks within the immediate vicinity of my brother-in-law's new Washington row house. But the neighborhood next door has two of them, he says, each less than a mile away. I plugged his new address into the "coming soon" feature on Starbucks store locator, which gives locations of stores that are on the drawing board. Nothing yet, but give it time. Sooner or later, Starbucks, Home Depot and the general housing market will begin to turn around, and then real estate obsessives can return to the peculiar hobby of mapping store expansions as a way to get rich quick.

Daniel McGinn is a national correspondent at Newsweek and the author of " HOUSE LUST: Americas Obsession With Our Homes ".