

'Starbucks effect' is said to give a jolt to home prices

By Hudson Sangree
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Zillow chief economist Stan Humphries has this advice for homebuyers: Watch where Starbucks opens and buy a house close to one of the ubiquitous coffee shops.

The reason, he said, is that homes within a quarter mile of a Starbucks tend to rise in value faster than homes outside a quarter-mile radius. Humphries, head analyst for the online real estate tracker, calls it the "Starbucks effect."

There are dozens of Starbucks in the four-county Sacramento region. The values of houses a short distance from one of the coffee giant's stores increased 9 percentage points more than other homes over the last two decades, Zillow reported. Other cities, such as Boston, saw even bigger home price gains from the Starbucks effect.

"Starbucks has a lot of people spending a lot of time trying to pick the hot neighborhoods," and consumers can use the coffee giant's extensive research as a tool to show them where to buy, Humphries said.

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Pat Shea, president of Lyon Real Estate, said the Starbucks effect is a clever idea, but he doubts it's true. People mainly want to live near schools and work. Whether there's a coffee shop nearby is not high on buyers' lists, he said.

"It's just a coincidence," Shea said.

Zillow is confusing cause and effect, he contended. The coffee behemoth doesn't cause home prices to rise. Starbucks locates in "the path of development" and in revitalizing urban areas – places where home values are likely to surge anyway.

But Humphries and his colleagues said they accounted for that argument in their detailed analysis. The results are reported in the economist's new book, "Zillow Talk: The New Rules of Real Estate," which he co-wrote with Zillow chief executive Spencer Rascoff.

Starbucks and Zillow are both headquartered in Seattle.

It's true that Starbucks picks sites where home prices are "already on a tear," Humphries said. But even controlling for that factor, the values of homes near the stores tended to rise at a greater rate in the five years after a Starbucks opened, he said.

From 1997 to 2013 in the Sacramento area, for instance, home prices on average appreciated 115 percent, but those a quarter mile from a Starbucks appreciated 124 percent – yielding the 9 percentage point difference, he said.

"We came to the conclusion that Starbucks is both cause and effect," the economist said. "They're incredibly good at picking locations that are already up and coming but there's also an effect that home values go up more than you would have expected after a Starbucks opens."

"Once Starbucks shows up it's an indication that a neighborhood is open for business," he said. "It's a stamp of approval that leads other businesses to come into the neighborhood."

Call The Bee's Hudson Sangree, (916) 321-1191.

Sacramento area homes near a Starbucks

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