

# REAL ESTATE ADVISOR

## IS THE MOTT HAVEN NEIGHBORHOOD IN THE SOUTH BRONX THE NEW HOT SPOT? ONLY TIME WILL TELL.

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A community that was once an afterthought of young professionals and real estate investors alike, the South Bronx is in the midst of a real estate resurgence. Those same factors that led to the astronomical rental increases and multi-family development booms in Park Slope, Williamsburg, and Long Island City are now causing people to look north to what many consider is the next big thing. The proximity to Manhattan and affordable rental rates have led to an increased interest in the South Bronx and in particular the neighborhood of Mott Haven.

After years of seemingly ignoring the borough altogether, real estate developers have zeroed in on the South Bronx as the next area for a multi-family development boom within the five boroughs. Compared to the first six months of 2015, 2016 has seen an 11% increase in multifamily transaction volume. This has been driven by a combination of the development opportunities drying up in the hot outer borough neighborhoods of the past 10 years in Brooklyn and Queens and the relatively cheap pricing opportunities the Bronx offers. The average cap rate for multifamily transactions in the Bronx in the first half of 2016 was 5.05% compared to 3.67% in Manhattan and 4.44% in the Brooklyn.

The marquee real estate players in New York have taken notice. The Harbor Group and Emerald Equity Group's recent \$140 million acquisition of a 38-building multifamily portfolio in the Bronx is just the most recent example of the growing interest from significant players in the industry. It was a short two years ago when The Related Companies made news throughout the industry, acquiring a \$253 million portfolio consisting of 35 buildings in the north and west Bronx, made up of more than 2,000 apartment units. Then in December 2016, The Related Companies along with New York City Pension Funds purchased 737 apartments throughout North, West and South Bronx for \$112.5 million.

While the entire borough has experienced an uptick in activity in recent years, one area of note has been the Mott Haven neighborhood. Mott Haven is positioned in the southwestern most point of the borough; north of the Harlem River and south of 149th street. Midtown Manhattan is a 25 minute subway ride away via one of the four subway lines that travel through Mott Haven (2, 4, 5 & 6) and the Metro North is even closer at 10 minutes. Real estate investors have zeroed in on this neighborhood, drawing parallels between Long Island City and Park Slope due to the proximity to the river and picturesque skyline views of Manhattan that attract the affluent buyer/renter.

Up until the last few years the waterfront of Mott Haven had received little attention from investors and had remained largely undeveloped. The waterfront consisted of long stretches of industrial buildings and vacant land parcels.

In March of 2015, Somerset Partners acquired two waterfront sites in Mott Haven for a combined \$58 million. In connection

with these acquisitions, Somerset will develop approximately 1,600 residential units, a retail component and a waterfront promenade. Whereas other outer borough communities in Queens and Brooklyn, such as the now stalled Hallett Cover project in Astoria, have seen a development slowdown due to the expiration of the 421a program, the relative affordable pricing of the South Bronx has left investors with confidence that full market rent projects can succeed.


Through the first six months of 2016 Mott Haven accounted for whopping 21% of total development transactions traded in the borough during that time. The uptick in activity in Mott Haven has not been limited to purely residential ventures. FreshDirect expects to complete an 800,000 square foot manufacturing and distribution facility in Mott Haven in the summer of 2017. In August of 2014 a developer acquired the Bronx post office which sits on the northern border of Mott Haven for \$19,000,000 from the USPS with the intention to develop the property into a retail, commercial and community complex. The post office project is expected to be completed in the spring of 2017.

As is often the case when neighborhoods are the focus of increased residential development attention there are those that raise concerns about gentrification. As housing costs rise in the historically lower middle class area there is concern of pushing out longtime residents from the community. As part of Mayor Bill de Blasio's primary housing initiative a \$200 million capital investment for developing the Bronx's southern waterfront has been announced. The plan calls for 4,000 new apartment units of which most will be set aside for low and middle income residents.

Only time will tell what the future holds for the South Bronx but if history tells us anything, no matter what public policy is employed by the mayor and local officials Mott Haven will be on an unstoppable path towards gentrification.

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